Middle East and North Africa

No. 9 -- November 1993

Economic Development And Cooperation in The Middle East And North Africa

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Discussion Paper Series	سلسلة أوراق المناقشة	Document de Travail

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Executive Summary

i. This report has been prepared at the request of the Multilateral Working Group on Regional Economic Development. It provides an overview of economic development and regional cooperation in the Middle East and North Africa.[1] As requested, this includes a review of financial flows to the region as well as an analysis of the Occupied Territories. It is hoped that the report will serve as a framework for the deliberations of the Working Group.

ii. This summary presents the analysis and main conclusions of the report. It begins with an historical review of economic progress and in doing so establishes the necessity for a revitalization of economic growth in the region (Section I of the main report). It then suggests how this might be done and how it might be financed (Sections II and III of the main report). It continues with an exploration of the extent to which the suggested strategy is already being implemented in the region (Section IV of the main report), and concludes with some suggested next steps (Section V of the main report).

PAST ECONOMIC PERFORMANCE

iii. The review of past performance leads to two conclusions:

- Since the beginning of the 1980s, economic growth has been unable to create sufficient job opportunities for rapidly expanding labor forces and displaced persons -- today more than 10 million are unemployed.

- The swing in performance from boom in the 1970s to bust in the 1980s can be related to many factors, but two are particularly important -- capital inflows and domestic policies.

iv. During the first half of the 1970s the region enjoyed high and, at least in the case of the Maghreb and Mashreq, accelerating rates of economic growth. But by the second half of the 1980s, growth had collapsed: in both the Maghreb and the Mashreq economic growth was barely keeping pace with population growth; in Israel the economic stagnation of the early 1980s moderated slightly but growth remained modest.

v. The boom and the bust were closely linked to changes in inflows of capital: with the exception of the Occupied Territories where inflows remained high throughout, inflows were

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1/ For the purposes of this report, the region is taken to include: Algeria, Morocco, and Tunisia (the Maghreb); Egypt, Jordan, Lebanon, Occupied Territories, Syria, and Yemen (the Mashreq); and Israel.

largest in the second half of the 1970s and smallest in the second half of the 1980s. The changes in capital inflows were of major proportions, often amounting to swings of about 10 percentage points of GNP. In the Mashreq the swings mirrored the rise and fall in the price of oil. Elsewhere changes in OECD assistance were more important and in one case -- Algeria -- commercial borrowing was a major factor. Regardless of the source and regardless of the ups and downs, net inflows of capital between 1970 and 1990 averaged 16 percent of GNP in the Mashreq, 14 percent in Israel, and 3.5 percent in the Maghreb, unusually high flows by international standards.

vi. The link between these inflows and economic performance lies through investment: in both the upswing and the downswing domestic investment increased and declined with changes in capital inflows. But the changes in economic performance did not always match the increase in investment in the upswing. And the subsequent collapse in performance was much greater than could easily be explained by declining levels of investment during the downswing. The evidence suggests a decline in the productivity of investment In the late seventies, this is to be expected -- the sudden increase in investment encountered decreasing returns. It is much more worrisome when the productivity of capital falls at the same time as the rate of investment is declining. But this is what happened in all countries in the second half of the 1980s.

vii. The declining productivity of capital can be attributed to domestic policies and to their strong interaction with external financing -- both its composition and its swings. With respect to composition, of the almost US$55 billion that flowed into the region on a net basis in the 1970s, more than 90 percent accrued to the public sector. This inflow helped finance a rapid expansion of the region's public sectors, an expansion that was associated with a policy framework inhibiting the growth of private entrepreneurship, shunning the use of markets, and protecting public production from foreign competition. And with respect to swings, when the flow of external capital began to shrink, inappropriate domestic policies were put in place to ration increasingly scarce resources, leading to an inefficient incentive regime, inflation, and capital flight. The magnitude of the capital flight, the exodus of mainly private capital, attests to the private sector's unfavorable assessment of domestic policies: the average annual outflow in the 1980s is estimated at US$1.6 billion in the Maghreb and US$4.5 billion in the Mashreq, enough to virtually offset the annual inflows of worker remittances.

viii. This review of past performance points to the need to revitalize growth both by increasing the level of investment and improving the productivity of capital. This task, difficult as it is at the best of times, is made even more challenging in the Middle East and North Africa by three factors. First and foremost is population growth. The rapid growth in population -- regionwide population is still growing by 2.8 percent a year -- puts severe pressure on the capacities of governments to even maintain current levels of investment in human resources. And yet throughout much of the region standard measures of educational attainment and health status fall short of those in comparator (and competitor) countries. Second, past population and economic growth has inflicted severe costs on the environment -- many countries are now threatened by water scarcity, past environmental damage will have to be corrected, and future problems must be avoided by appropriate preventive action. And third, basic infrastructure will have to be modernized and developed and, in the particular cases of Lebanon and the Occupied Territories, reconstructed. The key characteristic of these three factors is that they increase the investment required for any given level of future growth compared with past experience.

A Strategy for the Future

ix. Looking to the future, the analysis presented here suggests the need for a strategy that combines three elements: increased regional cooperation, reform of domestic economic policy, and a new approach to external financing. The key points pertaining to each component and their role in the overall strategy are:

- Regional cooperation in the areas of trade, labor, capital, and especially multi-country projects will contribute to regionwide prosperity and will help solidify interaction in political and social spheres. But, by itself, regional cooperation will not solve the development problems confronting the region.

- Domestic reform is central to both a resurgence in private investment and a redirection of public investment towards human resources, infrastructure, and protection of the environment. An additional US$10-15 billion a year in investment will be required regionwide.

- External financing from official sources will not be as plentiful as in the past. Attracting back part of the savings held abroad -- estimated to be US$180 billion -- is key. This will require a credible domestic economic program and careful management of the existing debt overhang of US$140 billion.

x. Regional cooperation is a potentially important mechanism for improving regionwide economic performance. Cooperation in the area of trade for example enlarges the market and allows for gains from economies of scale. But at present intraregional trade accounts for only 6 percent of total trade, so that even a doubling is unlikely to generate an adequate number of new jobs. A similar point applies to labor migration -- even a return to the pre-Gulf levels of migration would make only a small dent in the existing unemployment problem. Capital flows from the Gulf could however be significant. Official flows are unlikely to regain their levels of the mid 1970s, but the considerable holdings of assets in the OECD could be attracted to the labor-surplus countries of the region if conditions were sufficiently appealing.

xi. The implementation of high-return regional projects in the fields of communication, water, environmental management, and energy is the most concrete and possibly the most beneficial form of regional cooperation. Several such projects have been identified by the World Bank and others and should be actively pursued with, if appropriate, the support of the Multilateral Working Groups. But such projects, important though they are, will constitute only a fraction of the total investment in the region of around US$50 billion a year. Unless the productivity of investment in all uses is increased, expansion and improvements in one area -- regional projects -- will not solve the problems of low growth and high unemployment.

xii. Domestic reform then is vital. The key reforms necessary to increase the quantity of private investment and improve the quality of public investment are well known in broad terms. Macroeconomic stabilization, an incentive structure conducive to the development of private entrepreneurship, a transparent regulatory framework, and an open trading environment are the elements that have proved successful elsewhere in securing private sector-led growth. Equally important is a redirection of public investment to those areas where it will be most productive. For example, to make a package of family planning services, basic health care, and primary education available to all citizens would require additional expenditure of less than one percent of GDP, a sum that could be realized through a reallocation within existing public budgets. This and other shifts in favor of physical infrastructure and environmental protection would both improve the quality of public investment and simultaneously support the private sector.

xiii. Reforms of the magnitude envisaged here are not easy to implement, in part because the increased levels of investment implicit in this approach limit the resources available for domestic consumption. One projection undertaken in this report suggests that investment levels equal to about 27 percent of GDP will be required to generate sufficient growth to provide adequate job opportunities for the region's expanding labor forces. This compares with a current regional average of 23 percent (only 20 percent when the Maghreb is excluded). As with all projections, the ones presented here depend on many assumptions which may or may not materialize. With this caution in mind, the analysis suggests the need for additional investment, including the special needs of the Occupied Territories and Lebanon, of between US$10 and US$15 billion a year in the medium term.

xiv. Financing for this higher rate of investment could come from domestic or external sources. While there is room for redirecting public expenditures away from military budgets, the scope for action on the domestic front remains limited by the need to maintain consumption levels. External financing will, therefore, also be necessary. Circumstances, however, are unlikely to allow countries to regain the level of public sector financing achieved in the late 1970s. Assistance from Arab, OECD, and multilateral sources is likely to be constrained and, with the conclusion of the Cold War and the collapse of the Soviet Union, the former Eastern Bloc has ceased to be a source of assistance and is indeed now competing for the limited quantities of international assistance. This calls for more reliance on inflows of private capital.

xv. In this respect, the past exodus of private capital provides a potential solution. In total, residents of the region hold an estimated US$180 billion in savings abroad. For some countries -- Egypt, Jordan, Syria -- the estimated amount exceeds GDP. International experience points to two factors that are critical in attracting past outflows back to the originating country. One is an appropriate domestic economic program. This has already been discussed. The other is an acceptable degree of international creditworthiness. Past experience suggests that countries with ratios of debt to exports in excess of 200 percent are not viewed as creditworthy. The expectation that this approach to external financing will succeed depends therefore on the size of the savings held abroad and the size of each country's debt burden. Country-by-country projections demonstrate that such a strategy would indeed allow most of the countries of the region to grow out of their indebtedness and achieve long-run creditworthiness and growth.

xvi. An assessment of recent economic policy region-wide, and the World Bank's more detailed study of the Occupied Territories, suggest that:

- Several countries -- Egypt, Israel, Jordan, Morocco, Tunisia -- are already implementing some of the reforms recommended in this report and are observing increased inflows of foreign direct investment and returning capital flight.

- In the special case of the Occupied Territories, the potential for the strategy to work exists but, given the need to improve basic infrastructure and increase the provision of social services, official assistance will be required initially. Public sector investments amounting to about US$1.9 billion (in constant 1993 prices) are estimated to be required in the medium term (1994-98).

xvii. Evidence that the approach proposed here is already being implemented in the region can be found in the progress on economic reform. Several countries in the region -- Morocco, Tunisia, and Israel -- have been following a reformist agenda for some time with promising results. Encouraged by these early reformers, Jordan has also initiated reforms and Egypt has recently undertaken far reaching reforms. In Lebanon, the stabilization policies being pursued will go a long way towards reviving and sustaining economic growth if they are maintained. Algeria, Syria, and Yemen are still plagued with serious macroeconomic and microeconomic problems but are now giving consideration to the elimination of macroeconomic imbalances, reducing policy induced price distortions, and improving the management of public resources. Further evidence can be found in the inflows of private capital that are now beginning to occur. Private capital inflows in 1992 amounted to US$3 billion in Egypt, US$0.6 billion in Jordan, and US$2 billion in Lebanon. In countries where savings held overseas are much less important, private capital inflows have taken the form of foreign direct investment. In Morocco foreign direct investment reached US$0.5 billion in 1992, and in Tunisia US$0.2 billion.

xviii. In the special case of the Occupied Territories, the World Bank's study revealed that significant improvements in public infrastructure and services are needed not only to improve living conditions directly, but also to support private business activities and to avoid environmental degradation. Thus, public sector investments will have to come first and for this external capital will be needed in the immediate term. On a commitment basis, public sector investments (in constant 1993 prices) are estimated at about US$1.9 billion for the medium term (1994-98), and an additional US$1.6 billion in the long run (1999-2004). The focus during the medium term would be on the rehabilitation and upgrading of the local level public infrastructure and services in water supply, sewerage, solid waste, road transport, electricity, education and

health. In addition, some support would be needed for strengthening agricultural services and for improving natural resource management through erosion control measures and forestry development. The associated annual external financing requirements of the public sector (including UNRWA) in nominal terms during 1994-98 would be US$550-US$600 million. Donors currently spend about US$175 million annually in the Territories, including UNRWA. Thus, external aid flows would have to be tripled from present levels to meet the financing needs of the public sector.

NEXT STEPS

xix. The Multilateral Working Group has a mandate to encourage regional cooperation. Given the considerable effort that has been undertaken on several regional projects and initiatives, it may now be appropriate to advance this work to the next stage. In particular pre-feasibility studies are required to provide a better basis for choosing among alternatives and arriving at more precise cost estimates. For this purpose, seed money of about US$9 million is estimated to be required. Within this framework, it would be useful in the case of the Occupied Territories to have a shelf of priority projects ready for implementation as soon as adequate progress has been made in the bilateral negotiations. To strengthen institutional capacity, preparatory studies and institutional development activities should also be initiated. The cost of the preparatory studies, technical assistance and training required immediately is estimated at US$35 million, of which approximately half would be for project preparation and feasibility studies and half for institutional development. These remarks suggest two conclusions:

- The Working Group my wish to considerthe funding for further preparatory work on the regional initiatives and the mechanism for implementing the work. US$9 million is required for this purpose.

- The Working Group may wish to consider endorsing the launching of the technical assistance program proposed for the Occupied Territories. Preliminary estimates based on the World Bank study indicate that funding of about US$35 million would be required for this purpose. A Trust Fund, to be administered by the World Bank, has recently been launched, with financial commitments indicated by a number of donors.

DEVELOPPEMENT ECONOMIQUE ET COOPERATION AU MOYEN-ORIENT ET EN AFRIQUE DU NORD

Résumé analytique

i. Le présent rapport a été établi à la demande du Groupe de travail multilatéral sur le développement économique régional. Il offre une vue d'ensemble du développement économique et de la coopération régionale au Moyen-Orient et en Afrique du Nord [2], et contient notamment, comme il avait été demandé, un examen des flux financiers destinés à cette région et une analyse de la situation des Territoires occupés. On espère ainsi fournir un cadre de référence pour les discussions du Groupe de travail.

ii. Ce résumé analytique présente les analyses et principales conclusions contenues dans le rapport. Il commence par passer en revue les résultats économiques antérieurs de la région, en faisant ressortir la nécessité de relancer l'activité économique dans les pays concernés (Section I du rapport principal). Il suggère ensuite les moyens qui permettraient d'y parvenir et la façon dont ils pourraient être financés (Sections II et III du rapport). Enfin, après avoir étudié dans quelle mesure la stratégie ainsi suggérée est déjà appliquée dans la région (Section IV), il fait, en conclusion, quelques suggestions sur les mesures pouvant être prises dès à présent (Section V).

RESULTATS ECONOMIQUES ANTERIEURS

iii. Deux conclusions ressortent de l'examen des résultats économiques antérieurs de la région :

- Depuis le début des années 80, la croissance économique n'a pas été suffisamment créatrice d'emplois pour pouvoir faire face à l'accroissement rapide de la main-d'oeuvre disponible et des transferts de population : aujourd'hui, en effet, plus de 10 millions d'individus sont sans emploi.

- Le passage, entre les années 70 et les années 80, d'une période d'expansion à une phase de récession, peut être mis au compte de plusieurs facteurs, mais de deux plus particulièrement : les apports de capitaux et les politiques intérieures.

iv. Durant la première moitié des années 70, cette région avait bénéficié de taux de croissance économique non seulement élevés mais aussi, au moins pour les pays du Maghreb et du Mashreq, de plus en plus soutenus. Cependant, cette période d'expansion était terminée lorsqu'a débuté la seconde moitié des années 80 : au Maghreb comme au Mashreq, la croissance de l'économie était à peine égale

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2/ Dans ce rapport, la région considérée englobe : l'Algérie, le Maroc et la Tunisie (pays du Maghreb); l'Egypte, la Jordanie, le Liban, les Territoires occupés, la Syrie et le Yémen (pays du Mashreq); et Israël.

à la croissance démographique et, en Israël, la stagnation du début des années 80 était certes moins prononcée, mais la croissance restait modérée.

v. Ces périodes d'expansion et de récession ont suivi de près l'évolution des apports de capitaux : exception faite des Territoires occupés, où ils sont constamment restés élevés, ces apports ont en effet atteint leur niveau maximum dans la seconde moitié des années 70, pour tomber au niveau le plus bas après le milieu des années 80. Ces variations ont été d'une ampleur considérable; dans bien des cas, les écarts ont atteint environ 10 points de pourcentage du PNB. Dans les pays du Mashreq, ces changements ont reflété la hausse et la baisse des cours du pétrole. Ailleurs, c'est l'évolution de l'aide provenant de l'OCDE qui a davantage joué et dans un cas, celui de l'Algérie, les emprunts commerciaux ont été un facteur déterminant. Indépendamment de leur origine et de leurs fluctuations, les apports nets de capitaux entre 1970 et 1990 ont atteint en moyenne 16 % du PNB dans les pays du Mashreq, 14 % en Israël et 3,5 % dans les pays du Maghreb, soit des niveaux extrêmement élevés au regard des normes internationales.

vi. C'est au niveau des investissements que s'établit le lien entre ces apports et les résultats économiques : que ce soit en phase d'expansion ou en phase de contraction, l'investissement intérieur a en effet augmenté et diminué parallèlement aux fluctuations des apports de capitaux. Mais l'évolution des performances économiques n'a pas toujours correspondu à la hausse des investissements en période d'expansion, et l'aggravation ultérieure des résultats de l'économie a été nettement plus marquée que ne l'aurait laissé présager la baisse du niveau des investissements durant la phase de contraction. Tout laisse penser que c'est la productivité des investissements qui a diminué. Cette évolution était prévisible à la fin des années 70, l'augmentation subite des investissements s'étant accompagnée de rendements de moins en moins élevés. Mais elle est bien plus préoccupante lorsque la productivité des capitaux diminue parallèlement au taux d'investissement, et c'est précisément ce qui s'est produit dans tous les pays durant la seconde moitié des années 80.

vii. La baisse de productivité des capitaux peut être mise au compte des politiques intérieures et des rapports étroits qui existent entre celles-ci et le financement extérieur — en ce qui concerne aussi bien sa structure que ses variations. S'agissant de la structure de ce financement, plus de 90 % des apports nets de près de 55 milliards de dollars dont a bénéficié la région au cours des années 70 sont allés au secteur public. Cela a aidé à financer une expansion rapide de ce secteur dans les pays concernés, expansion assortie d'un cadre de politique économique qui avait pour effet d'entraver le développement de l'entreprise privée, de décourager le recours aux marchés et de protéger la production des entreprises publiques vis-à-vis de la concurrence étrangère. En ce qui concerne les variations du financement, lorsque les entrées de capitaux extérieurs ont commencé à diminuer, des politiques intérieures inappropriées ont été adoptées pour rationner des ressources de plus en plus rares, ce qui a entraîné un régime d'incitations inefficace, l'inflation et la fuite des capitaux. L'ampleur de ce dernier problème et l'exode de capitaux essentiellement privés montrent que les politiques intérieures étaient jugées d'une façon défavorable par le secteur privé : selon les estimations, les sorties annuelles moyennes de capitaux ont atteint, durant les années 80, 1,6 milliard de dollars dans les pays du Maghreb et 4,5 milliards dans ceux du Mashreq, soit des montants suffisants pour compenser à peu près les envois de fonds des travailleurs de ces pays à l'étranger.

viii. Cet examen des résultats économiques antérieurs montre donc qu'il faut rétablir la croissance non seulement en augmentant le niveau des investissements mais aussi en améliorant la productivité des capitaux. C'est là une entreprise difficile dans le meilleur des cas, mais qui l'est d'autant plus dans les pays du Moyen-Orient et d'Afrique du Nord, où trois facteurs sont en jeu. Le premier, et le plus important, est la croissance démographique. Sous l'effet de la pression démographique — la

population continue d'augmenter de 2,8 % par an dans l'ensemble de la région —, les gouvernements ont du mal ne serait-ce qu'à maintenir les niveaux actuels d'investissement dans les ressources humaines, alors même que les indicateurs de niveau éducatif et de situation sanitaire d'une bonne partie de ces pays sont inférieurs à ceux des pays comparateurs (et concurrents). Deuxièmement, la croissance démographique et économique des années précédentes a sérieusement porté atteinte à l'environnement : beaucoup de pays sont désormais sous la menace d'une pénurie d'eau, et il va falloir en outre réparer les dégâts déjà causés à l'environnement et prendre les mesures préventives appropriées pour éviter de futurs problèmes. Troisièmement, l'infrastructure de base devra être non seulement modernisée et développée mais aussi, en particulier au Liban et dans les Territoires occupés, reconstruite. Ces trois facteurs ont tous pour effet essentiel d'accroître l'effort d'investissement qui devra être entrepris pour parvenir à l'avenir à un niveau quelconque de croissance, par rapport à ce qui était le cas auparavant.

STRATEGIE POUR LES ANNEES À VENIR

ix. Pour l'avenir, l'analyse présentée ici laisse penser qu'il faut adopter une stratégie associant trois éléments : une coopération régionale accrue, une réforme des politiques économiques intérieures et une nouvelle approche du financement extérieur. Voici les aspects essentiels de chacune de ces composantes, et la place qu'elles occupent dans la stratégie d'ensemble :

- Une coopération régionale en matière d'échanges commerciaux, de main-d'oeuvre et de capitaux et en particulier des projets au niveau de plusieurs pays contribueront à la prospérité de la région et au renforcement des contacts dans le domaine politique et social. Mais elle ne parviendra pas, à elle seule, à résoudre les problèmes de développement qui se posent dans cette région.

- *Des réformes intérieures sont indispensables, tant pour relancer* l'investissement privé que pour réorienter l'investissement public vers la valorisation des ressources humaines, l'infrastructure et la protection de l'environnement. De 10 à 15 milliards de dollars d'investissements annuels supplémentaires seront nécessaires pour l'ensemble de la région.

- Les apports de fonds extérieurs provenant de sources officielles ne seront pas aussi abondants qu'auparavant, et il faut donc impérativement faire revenir une partie de l'épargne détenue à l'étranger — soit 180 milliards de dollars, d'après les estimations. Les pays doivent pour cela mettre en place des programmes économiques crédibles sur le plan intérieur, et gérer soigneusement l'encours actuel de leur dette, qui s'élève à 140 milliards de dollars.

x. La coopération régionale peut contribuer pour une bonne part à améliorer les performances économiques de tous les pays concernés. Dans le domaine des échanges commerciaux, par exemple, elle permet à ceux-ci d'élargir leur marché et de tirer parti des économies d'échelle. Mais le commerce intra-régional ne représente aujourd'hui que 6 % de l'ensemble des échanges commerciaux de ces pays et, même s'il était multiplié par deux, le nombre d'emplois nouveaux

ainsi créés ne serait sans doute pas suffisant. Il en est de même de la migration de la main-d'oeuvre : même un retour aux flux migratoires antérieurs à la guerre du Golfe ne résorberait qu'une partie infime du problème du chômage tel qu'il se pose à l'heure actuelle. Par contre, les apports de capitaux en provenance du Golfe pourraient être importants. Il ne faut guère s'attendre à ce que les flux d'aide publique retrouvent les niveaux qui étaient les leurs au milieu des années 70, mais les pays à excédent de main-d'oeuvre de la région pourraient attirer les avoirs financiers considérables des pays de l'OCDE si les conditions offertes étaient suffisamment attirantes.

xi. La forme de coopération la plus tangible et peut-être la plus bénéfique consiste à entreprendre des projets régionaux à forte rentabilité dans des secteurs comme les communications, les ressources en eau, la gestion de l'environnement ou l'énergie. Plusieurs projets de ce type ont été identifiés par la Banque mondiale et divers autres organismes, et il convient d'y donner suite d'une façon active et, le cas échéant, avec l'appui du Groupe de travail multilatéral. Mais ces projets, pour importants qu'ils soient, ne constitueront qu'une petite partie de l'ensemble des investissements dans la région, qui se chiffrent aux alentours de 50 milliards de dollars par an. Si l'on n'améliore pas la productivité des investissements sous tous les plans, ce n'est pas par un effort accru et des améliorations dans un domaine — les projets d'ampleur régionaux — que l'on résoudra les problèmes posés par le faible niveau de croissance et le fort taux de chômage.

xii. Les réformes intérieures sont donc indispensables. On sait bien, de façon générale, quelles sont les réformes essentielles à entreprendre pour accroître le volume des investissements privés et améliorer la qualité des investissements publics. Dans d'autres pays, divers éléments ont réussi à faire entrer l'économie dans une phase de croissance sous l'impulsion du secteur privé : la stabilisation de la situation macroéconomique, une structure d'incitations favorable au développement de l'esprit d'entreprise, un cadre réglementaire transparent et un système d'échanges ouvert. Un autre élément tout aussi important consiste à réaffecter les investissements publics dans les domaines où ils seront le plus productifs. Ainsi, un ensemble de mesures destinées à donner à chacun accès aux services de planning familial, aux soins de santé de base et à l'enseignement primaire exigerait une dépense supplémentaire représentant moins de 1 % du PIB, et une somme de ce genre pourrait être dégagée moyennant une redistribution entre les budgets en place des administrations publiques. De telles réaffectations en faveur de l'infrastructure et de la protection de l'environnement permettraient à la fois d'améliorer la qualité des investissements publics et de soutenir le secteur privé.

xiii. Des réformes de l'ampleur envisagée ici ne sont pas faciles à mettre en oeuvre, notamment parce que le surcroît d'investissements qu'une telle approche suppose implicitement réduira les ressources disponibles pour la consommation intérieure. Selon une projection figurant dans le rapport principal, il faudra des niveaux d'investissement de l'ordre de 27 % du PIB afin de parvenir à une croissance suffisamment créatrice d'emplois pour répondre à l'augmentation de la main-d'oeuvre disponible de la région. Par comparaison, le niveau actuel moyen de la région se situe à 23 % (et à 20 % seulement si l'on exclut le Maghreb). Comme toute projection, celles qui sont présentées ici reposent sur beaucoup d'hypothèses qui peuvent ou non s'avérer exactes. Cela dit, la présente analyse indique que les investissements supplémentaires à réaliser, notamment pour faire face aux besoins particuliers des Territoires occupés et du Liban, devront se chiffrer entre 10 et 15 milliards de dollars par an à moyen terme.

xiv. Le financement de ce surcroît d'investissements pourra provenir de sources intérieures ou extérieures. Sur le plan intérieur, il est certes envisageable de réaffecter des crédits publics précédemment inscrits aux budgets de l'armée, mais les possibilités d'action restent limitées par la nécessité de maintenir les niveaux de consommation. Il faudra donc avoir aussi recours aux financements extérieurs, mais la situation est telle qu'il ne faut guère s'attendre à ce que les pays retrouvent les niveaux de financement public qu'ils avaient connus à la fin des années 70. L'aide provenant des pays arabes, de l'OCDE et de sources multilatérales risque d'être limitée; quant à l'ancien bloc des pays de l'Est, non seulement il n'est plus une source d'aide depuis la fin de la guerre froide et l'effondrement de l'Union soviétique, mais il est en fait en concurrence avec les autres pays pour attirer une aide internationale en quantité limitée. Il faudra donc s'en remettre davantage aux apports de capitaux privés.

xv. A cet égard, une solution pourrait être trouvée du côté des capitaux privés précédemment enfuis. Au total, on estime que les habitants de la région détiennent pour 180 milliards de dollars d'épargne à l'étranger. Dans certains pays, comme l'Egypte, la Jordanie ou la Syrie, les montants en jeu dépasseraient le PIB national. D'après l'expérience faite par d'autres pays, deux facteurs sont indispensables pour arriver à faire revenir les capitaux enfuis dans leur pays d'origine. Premièrement, le pays doit avoir un programme économique intérieur approprié, comme on l'a déjà vu. Deuxièmement, il doit jouir d'un degré de solvabilité acceptable sur le plan international. L'expérience antérieure laisse penser que les pays ayant un ratio dettes/exportations supérieur à 200 % ne sont pas considérés comme solvables. Pour que cette stratégie de financement extérieur ait des chances de réussir, il faut donc considérer le volume de l'épargne détenue à l'étranger et le degré d'endettement de chaque pays. Les projections établies pays par pays montrent qu'une telle stratégie permettrait effectivement à la plupart des pays de la région de sortir de leur endettement et de parvenir, à long terme, à une situation de solvabilité et de croissance.

MISE EN OEUVRE DE LA STRATEGIE

xvi. L'évaluation des politiques économiques appliquées ces dernières années dans la région et l'étude plus détaillée consacrée par la Banque mondiale aux Territoires occupés tendent à établir deux choses :

- Plusieurs pays — l'Egypte, Israël, la Jordanie, le Maroc et la Tunisie — ont déjà commencé à appliquer certaines des réformes recommandées dans le présent rapport, et on y constate un accroissement des flux d'investissement direct étranger et un retour des capitaux enfuis.

- Dans le cas particulier des Territoires occupés, cette stratégie peut donner des résultats, mais une aide publique sera nécessaire au départ, du fait que l'infrastructure de base doit être améliorée et les services sociaux renforcés. Des investissements publics de l'ordre de 1,9 milliard de dollars (en prix constants de 1993) devraient être nécessaires à moyen terme (1994-98).

xvii. Les progrès réalisés en matière de réformes économiques montrent, si besoin était, que l'approche ici proposée est déjà suivie dans la région. Plusieurs pays — le Maroc, la Tunisie et Israël — se sont déjà engagés depuis un certain temps dans un programme de réforme qui donne des résultats encourageants. S'inspirant de leur exemple, la Jordanie a également entrepris des réformes, et l'Egypte a récemment mis en oeuvre un vaste ensemble de réformes. Au Liban, les mesures de stabilisation actuellement entreprises contribueront pour beaucoup à relancer et à soutenir la croissance économique, à condition que cet effort soit maintenu. En Algérie, en Syrie et au Yémen, de sérieux problèmes continuent de se poser sur les plans macroéconomique et microéconomique, mais les autorités ont mis à l'étude des mesures destinées à éliminer les déséquilibres macroéconomiques, à réduire les distorsions des prix résultant des politiques suivies et à améliorer la gestion des ressources publiques. Une autre preuve de l'application de cette stratégie est constituée par les apports de capitaux privés qui commencent à être enregistrés. En 1992, ils ont atteint 3 milliards de dollars en Egypte, 600 millions en Jordanie et 2 milliards au Liban. Dans les pays qui ont un volume d'épargne à l'étranger beaucoup moins important, les apports de capitaux privés se sont faits sous la forme d'investissements directs étrangers. En 1992, ceux-ci se sont chiffrés à 500 millions de dollars au Maroc et à 200 millions en Tunisie.

xviii. Dans le cas particulier des Territoires occupés, l'étude réalisée par la Banque mondiale a révélé que des améliorations considérables devront être apportées à l'infrastructure et aux services publics, que ce soit pour améliorer les conditions de vie proprement dites ou pour soutenir l'activité des entreprises privées et éviter la dégradation de l'environnement. C'est pourquoi les investissements dans le secteur public devront venir en premier, et des capitaux extérieurs seront nécessaires pour cela dans l'immédiat. Sur la base des engagements, les investissements dans le secteur public sont estimés aux alentours de 1,9 milliard de dollars (en prix constants de 1993) à moyen terme (1994-98), et à 1,6 milliard de dollars de plus sur le long terme (1999-2004). Pour le moyen terme, les efforts devront porter en priorité sur la remise en état et l'amélioration de l'infrastructure et des services publics locaux pour l'alimentation en eau, l'assainissement, l'élimination des déchets solides, les transports routiers, l'approvisionnement en électricité, l'éducation et la santé. Une certaine aide devra également être fournie pour renforcer les services agricoles et améliorer la gestion des ressources naturelles, grâce à des mesures de lutte contre l'érosion et d'aménagement forestier. Les besoins correspondants du secteur public (UNRWA compris) en matière de financement extérieur seront de l'ordre de 550 à 600 millions de dollars par an, en valeur nominale, durant la période 1994-98. A l'heure actuelle, les bailleurs de fonds consacrent environ 175 millions de dollars par an aux Territoires occupés, UNRWA compris, et les flux d'aide extérieure actuels devront donc être multipliés par trois pour répondre aux besoins de financement du secteur public.

MESURES A PRENDRE DANS L'IMMEDIAT

xix. Le Groupe de travail multilatéral a pour mandat d'encourager la coopération à l'échelon régional. Etant donné les efforts considérables qui ont été déployés dans le cadre de plusieurs projets et initiatives à ce niveau, le moment est peut-être venu de passer à la phase suivante de ces activités. On doit en particulier entreprendre des études de faisabilité pour pouvoir, sur de meilleures bases, faire des choix entre les différentes options possibles et établir des estimations de coûts plus précises. On estime à 9 millions de dollars le capital de départ qui sera nécessaire à cette fin. Dans ce contexte, on aurait intérêt, dans le cas des Territoires occupés, à disposer d'une réserve de projets prioritaires qui soient prêts à être mis en oeuvre dès que les progrès

voulus auront été réalisés dans les négociations bilatérales. Par ailleurs, des études préparatoires et des activités de développement des institutions devraient être mises en oeuvre afin de renforcer les capacités institutionnelles. Le coût des études préparatoires, de l'assistance technique et de l'effort de formation nécessaires dans l'immédiat est estimé à 35 millions de dollars, répartis pour moitié environ entre la préparation des projets et les études de faisabilité, d'une part, et l'effort de développement des institutions, d'autre part. Sur ces bases, deux séries de suggestions peuvent être faites en conclusion :

- Le Groupe de travail voudra peut-être envisager de financer des activités préparatoires supplémentaires en ce qui concerne les initiatives régionales et le mécanisme d'exécution correspondant. Un montant de 9 millions de dollars est nécessaire à cette fin.

- Le Groupe de travail voudra peut-être aussi envisager de donner son accord au lancement du programme d'assistance technique proposé pour les Territoires occupés. Selon les estimations préliminaires fondées sur l'étude menée par la Banque mondiale, un financement d'environ 35 millions de dollars sera nécessaire dans cette perspective. Un Fonds fiduciaire, qui doit être administré par la Banque mondiale, a été récemment mis en place, et des engagements financiers ont été communiqués par un certain nombre de bailleurs de fonds.

التنمية الاقتصادية والتعاون

في

منطقة الشرق الأوسط وشمال افريقيا

موجز تنفيذي

١ - أعد هذا التقرير بناء على طلب مجموعة العمل المتعددة الأطراف المعنية بالتنمية الاقتصادية الاقليمية، وهو يقدم عرضا عاما للتنمية الاقتصادية والتعاون الاقليمي في منطقة الشرق الأوسط وشمال افريقيا.[1] وتلبية لطلب المجموعة، يشمل التقرير استعراضا للتدفقات المالية الى المنطقة وتحليلا لأوضاع الأراضي المحتلة. ومن المؤمل أن يوفر هذا التقرير اطارا لمداولات مجموعة العمل.

٢ - يعرض هذا الموجز التحليل والنتائج الرئيسية التي خلص اليها التقرير. ويبدأ باستعراض التقدم الاقتصادي المحرز، وبذلك يقيم الدليل على ضرورة انعاش النمو الاقتصادي في المنطقة (القسم الأول من التقرير الرئيسي)، ثم يعرض اقتراحات حول أسلوب تنفيذ ذلك وتوفير موارد التمويل اللازمة (القسمان الثاني والثالث من التقرير الرئيسي)، ويتبع ذلك باستطلاع مدى التنفيذ الجاري للاستراتيجية المقترحة في المنطقة (القسم الرابع من التقرير الرئيسي). وفي الختام يعرض بعض الاقتراحات بشأن الخطوات التالية التي يمكن القيام بها (القسم الخامس من التقرير الرئيسي).

أداء الاقتصاد في الماضي

٣ - يفضي استعراض الأداء في الماضي الى النتيجتين التاليتين:

- منذ بداية الثمانينات، لم يستطع النمو الاقتصادي تهيئة ما يكفي من فرص العمل لتلبية احتياجات عدد متزايد من القوى العاملة والمهجرين - ويبلغ عدد العاطلين حاليا ١٠ ملايين شخص.

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١ لأغراض هذا التقرير، تشمل المنطقة كلا من: الجزائر، المغرب، وتونس (دول المغرب العربي)، ومصر، الأردن، لبنان، الأراضي المحتلة، سوريا، واليمن (دول المشرق العربي)، واسرائيل.

٥ - من الممكن عزو التحول من الازدهار الاقتصادي الذي شهدته المنطقة في السبعينات الى الأزمة الاقتصادية التي شهدتها في الثمانينات الى عوامل كثيرة، ولكن عاملين اثنين يتسمان بأهمية خاصة - تدفقات رؤوس الأموال الى المنطقة والسياسات المحلية.

٤ - نعمت المنطقة في النصف الأول من السبعينات بمعدلات نمو اقتصادي مرتفعة ومتزايدة السرعة، على الأقل في حالة المغرب العربي والمشرق العربي. ولكن بحلول النصف الثاني من الثمانينات توقف الازدهار: ففي كل من المغرب والمشرق العربيين لم تزد سرعة النمو الاقتصادي على ما يكفي بالكاد لمواكبة معدلات النمو السكاني. وفي اسرائيل، خفت بصورة طفيفة حدة الركود الاقتصادي الذي شهدته أوائل الثمانينات، ولكن النمو ظل متواضعا.

٥ - وكان للازدهار والأزمة اللذين شهدهما اقتصاد دول المنطقة ارتباط وثيق بالتغيرات في تدفقات رؤوس الأموال الى المنطقة: باستثناء الأراضي المحتلة حيث استمرت التدفقات بمستويات مرتفعة طوال الفترة، بلغت التدفقات ذروتها في النصف الثاني من السبعينات وهبطت الى أدنى مستوياتها في النصف الثاني من الثمانينات. وكانت التغيرات في حجم تدفقات رؤوس الأموال هذه كبيرة، وغالبا ما شهدت تحولات سريعة بلغت حوالي ١٠ نقاط مئوية من اجمالي الناتج القومي. في دول المشرق، كانت تلك التحولات انعكاسا لارتفاع أسعار البترول وانخفاضها، وفي الدول الأخرى كانت التغيرات في مستويات المساعدات الممنوحة من قبل دول منظمة التعاون الاقتصادي والتنمية أكثر أهمية، وفي حالة واحدة - الجزائر - كان الاقتراض من البنوك التجارية أحد العوامل الرئيسية. وبغض النظر عن مصدر التدفقات وارتفاع أو انخفاض مستوياتها، بلغ متوسط معدلات صافي تدفقات رؤوس الأموال الى المنطقة بين عامي ١٩٧٠ و١٩٩٠ نسبة ١٦ في المائة من اجمالي الناتج القومي في دول المشرق، و١٤ في المائة في اسرائيل، و٣٫٥ في المائة في دول المغرب، وتلك معدلات مرتفعة بصورة غير عادية حسب المعايير الدولية.

٦ - يكمن الارتباط بين تدفقات الموارد المالية وبين أداء الاقتصاد في مستويات الاستثمار: ففي كل من حالات ارتفاع التدفقات وانخفاضها ازداد مستوى الاستثمار أو هبط مع التغيرات في حجم رؤوس الأموال الى المنطقة. ولكن التغيرات في أداء الاقتصاد لم تواز دائما ارتفاع مستويات الاستثمار في فترات ارتفاع تدفقات الموارد المالية الى المنطقة. كما أن انهيار الأداء الاقتصادي لاحقا كان أكبر من أن يبرره انخفاض مستويات الاستثمار خلال فترات انخفاض تدفقات الموارد المالية. وتشير الدلائل الى هبوط في انتاجية الاستثمار. وعليه، في أواخر السبعينات، وحسبما كان متوقعا، ه ت الزيادة المفاجئة في مستويات الاستثمار

عائدات منخفضة. ومما يثير القلق بصورة أكبر هبوط مستويات انتاجية رأس المال في الوقت ذاته الذي تنخفض فيه معدلات الاستثمار، ولكن ذلك هو ما حدث بالفعل في كافة دول المنطقة في النصف الثاني من الثمانينات.

٧ - من الممكن عزو هبوط انتاجية رأس المال الى السياسات المحلية وتفاعلها القوي مع موارد التمويل الخارجي - من حيث تركيبها وتغيراتها. وفيما يتعلق بتركيب الموارد المالية، فان أكثر من ٩٠ في المائة من أصل حوالي ٥٥ بليون دولار أمريكي من صافي الموارد المتدفقة الى المنطقة في السبعينات كان من نصيب القطاع العام. وقد ساعد تدفق هذه الموارد في تمويل توسع القطاع العام في المنطقة، وهو توسع اقترن بأطر سياسات قوضت نمو الأعمال الحرة الخاصة، وابتعدت عن استخدام الأسواق، وحمت منتجات القطاع العام من المنافسة الأجنبية. وفيما يتعلق بالتغيرات في تدفقات الموارد، حين بدأت تدفقات الموارد المالية الى المنطقة في التقلص، وضعت سياسات محلية غير ملائمة هدفت الى تقنين الموارد المتزايدة الشحة، مما أدى الى عدم كفاءة أنظمة الحوافز، والتضخم النقدي، وهروب رأس المال. ويعتبر حجم الموارد المالية الهاربة، وبصورة رئيسية، نزوح رؤوس الأموال الخاصة، شاهدا على التقييم غير الايجابي لتلك السياسات المحلية من جانب القطاع الخاص. ويقدر متوسط الحجم السنوي للموارد الهاربة في الثمانينات من دول المغرب العربي بمبلغ ٦ر١ بليون دولار أمريكي ، ومن دول المشرق العربي بمبلغ ٥ر٤ بليون دولار أمريكي ، وتلك مستويات كافية لموازنة التدفقات السنوية الى المنطقة من تحويلات العاملين في الخارج.

٨ - ويشير هذا الاستعراض للأداء في الماضي الى الحاجة الى انعاش نمو الاقتصاد عن طريق زيادة مستويات الاستثمار وتحسين انتاجية رأس المال. هذه مهمة يصعب تحقيقها في أفضل الأوقات، ولكنها أكثر صعوبة في منطقة الشرق الأوسط وشمال افريقيا نتيجة عوامل ثلاثة، أولها وأهمها النمو السكاني. يفرض النمو السكاني السريع - بمعدل ٨ر٢ في المائة سنويا في أنحاء المنطقة - ضغطا شديدا على قدرات الحكومات في مجرد الحفاظ على مستويات الاستثمار الجارية في الموارد البشرية. ومع ذلك، فان مستويات التحصيل العلمي والأوضاع الصحية في المنطقة منخفضة عن مثيلاتها في الدول المقارنة (والدول المنافسة). وثاني هذه العوامل ما خلفه النمو السكاني والاقتصادي في الماضي من آثار بيئية باهظة التكلفة - حيث ان دولا عديدة في المنطقة الآن مهددة بشحة المياه، ويتوجب عليها اصلاح الأضرار البيئية السابقة وتجنب هذه الأضرار في المستقبل عن طريق اعتماد اجراءات وقائية. وثالث هذه العوامل، ضرورة تحديث وتطوير البنية الأساسية، وفي حالة لبنان والأراضي المحتلة، يتعين اعادة تشييدها. وتتلخص السمة الرئيسية لهذه العوامل الثلاثة في أنها ترفع مستويات الاستثمار المطلوب لتلبية احتياجات أي من مستويات النمو المزمع في المستقبل، مقارنة بالتجربة السابقة.

٩ - مع التطلع الى المستقبل، يوحي التحليل الذي نعرضه هنا بالحاجة الى استراتيجية تقرن ثلاثة عناصر: زيادة التعاون الاقليمي، واصلاح سياسات الاقتصاد المحلي، واعتماد نهج جديد فيما يتعلق بالتمويل الخارجي. وتتمثل النقاط الرئيسية المتعلقة بكل من هذه العناصر ودورها في الاستراتيجية العامة في الآتي:

- التعاون الاقليمي في مجالات التبادل التجاري، والعمالة، ورأس المال، وبصورة خاصة، المشروعات المشتركة بين عدد من الدول ستسهم كلها في تحقيق الازدهار في كافة أنحاء المنطقة وتساعد في تعزيز عرى التفاعل في المجالات السياسية والاجتماعية. ولكن التعاون الاقليمي وحده لن يكفي لحل مشاكل التنمية التي تواجه المنطقة.

- اصلاح السياسات والأنظمة المحلية أمر مركزي لتنشيط الاستثمارات الخاصة واعادة توجيه الاستثمارات العامة لتنمية الموارد البشرية والبنية الأساسية وحماية البيئة. وستتطلب عمليات الاستثمار في كافة أنحاء المنطقة موارد اضافية تتراوح ما بين ١٠ و١٥ بليون دولار أمريكي سنويا.

- لن يكون التمويل الخارجي من مصادر رسمية بالوفرة ذاتها التي كانت في السابق. ولذلك فان اجتذاب جزء من المدخرات المودعة في الخارج - وتقدر بحوالي ١٨٠ بليون دولار - يعتبر أمرا بالغ الأهمية. ويتطلب ذلك برامج اقتصادية محلية تتسم بالمصداقية والادارة الدقيقة لأعباء الديون الحالية البالغة ١٤٠ بليون دولار.

١٠ - يعد التعاون الاقليمي من الآليات الهامة لتحسين أداء اقتصادات دول المنطقة بكاملها. فالتعاون في مجال التبادل التجاري مثلا، يوسع الأسواق ويتيح المجال لتحقيق المكاسب من خلال وفورات الحجم. غير أن التبادل التجاري بين دول المنطقة لا يمثل حاليا سوى ٦ في المائة من الحجم الكلي للتبادل التجاري، مما يجعل من غير المرجح أن تؤدي حتى مضاعفة هذه النسبة الى خلق عدد كاف من فرص العمل الجديدة. ويصدق هذا القول على نزوح القوى العاملة - اذ أنه حتى العودة الى المستويات التي كانت سائدة قبل حرب الخليج لن تؤثر كثيرا في مشكلة البطالة. ولكن تدفقات رؤوس الأموال من دول الخليج قد تكون بالغة الأهمية. ومع انه من غير المرجح أن تعود التدفقات الرسمية الى مستوياتها السابقة التي

بلغتها في منتصف السبعينات، الا انه من الممكن اجتذاب الكثير من الأصول المستثمرة في دول منظمة التعاون الاقتصادي والتنمية، الى الدول التي لديها فائض في القوى العاملة في المنطقة اذا أصبحت الأوضاع فيها ملائمة بالقدر الكافي لاجتذابها.

١١ - يعتبر تنفيذ مشروعات اقليمية مرتفعة العائدات في مجالات الاتصالات والمياه وادارة البيئة والطاقة أكثر أشكال التعاون الاقليمي وضوحا، وقد يكون أكثرها تحقيقا للمنافع الملموسة. وقد تم تحديد عدة مشروعات من هذا النوع من جانب البنك الدولي وجهات أخرى، ويتعين الآن متابعتها بنشاط، بمساندة مجموعات العمل المتعددة الأطراف ان كان ذلك ملائما. غير أن هذه المشروعات، على الرغم من أهميتها، لن تشكل سوى جزء صغير من مجموع الاستثمارات في المنطقة والتي تبلغ قيمتها حوالي ٥٠ بليون دولار سنويا. وما لم تزدد انتاجية الاستثمار في كافة الاستخدامات لن يؤدي التوسع والتحسن في مجال واحد - المشروعات الاقليمية - الى حل المشاكل المتمثلة في انخفاض معدلات النمو وارتفاع معدلات البطالة.

١٢ - يعتبر اصلاح السياسات والأنظمة المحلية أمرا جوهريا. وعمليات الاصلاح الرئيسية اللازمة لزيادة حجم الاستثمارات الخاصة وتحسين نوعية الاستثمارات العامة معروفة بصفة عامة. وتتمثل العناصر التي ثبت نجاحها في مناطق أخرى من العالم في ضمان نمو الاقتصاد بجهود يتصدرها القطاع الخاص في عمليات تثبيت الاقتصاد الكلي، ووضع أنظمة حوافز تشجع تنمية الأعمال الحرة الخاصة، ووضع لوائح تنظيمية تتسم بالوضوح والعلانية، وتهيئة بيئة تتسم بانفتاح التجارة. ويعادل ذلك في الأهمية اعادة توجيه الاستثمارات العامة الى تلك المجالات التي يتوقع أن تحقق فيها أقصى الانتاجية. فعلى سبيل المثال، يتطلب اعداد مجموعة من خدمات تنظيم الأسرة والرعاية الصحية الأساسية والتعليم الأساسي لكافة المواطنين انفاقا اضافيا يقل عن ١ في المائة من اجمالي الناتج المحلي، وهذا مبلغ يمكن توفيره من خلال عملية اعادة تخصيص الموارد في اطار الموازنات العامة الحالية. وسينجم عن ذلك وعن التحولات الأخرى لصالح البنية الأساسية المادية وحماية البيئة تحسين نوعية الاستثمارات العامة وفي الوقت ذاته مساندة القطاع الخاص.

١٣ - ليس من السهل تنفيذ عمليات اصلاح بالضخامة والأبعاد المذكورة أعلاه، وذلك ناجم جزئيا عن أن الزيادة في مستويات الاستثمار التي ينطوي عليها هذا النهج ستحد من الموارد المتاحة لأغراض الاستهلاك المحلي. ويوحي احد التوقعات التي يتضمنها التقرير بأنه ستلزم استثمارات تعادل حوالي ٢٧ في المائة من اجمالي الناتج المحلي لتحقيق القدر الواجب من النمو لتوفير عدد كاف من فرص العمل تلبية لاحتياجات قوى العمل المتزايدة في المنطقة. ويبلغ متوسط مستوى الاستثمارات الحالية في المنطقة ٢٣ في المائة من اجمالي الناتج المحلي

سنويا (٢٠ في المائة فقط اذا استثني المغرب العربي)٠ وكما هو الحال بالنسبة لكافة التوقعات، فان التوقعات التي يتضمنها التقرير تعتمد على افتراضات كثيرة قد تتحقق أو لا تتحقق٠ ومع أخذ هذا التحذير في الاعتبار، يوحي التحليل بالحاجة الى استثمارات اضافية - شاملة الاحتياجات الخاصة للأراضي المحتلة ولبنان - تتراوح بين ١٠ بلايين دولار و١٥ بليون دولار سنويا على المدى المتوسط٠

١٤ - ومن الممكن الحصول على التمويل اللازم لمعدلات الاستثمار المرتفعة هذه من مصادر محلية أو خارجية٠ وعلى الرغم من وجود مجال لاعادة توجيه الاستثمارات العامة بعيدا عن الموازنات العسكرية، فان نطاق العمل على الصعيد المحلي يظل مقيدا بالحاجة الى الحفاظ على مستويات الاستهلاك٠ وعليه، سيكون التمويل الخارجي ضروريا أيضا٠ غير أنه من غير المرجح أن تسمح الظروف باستعادة دول المنطقة المستويات التي تحققت في أواخر السبعينات فيما يتعلق بتمويل القطاع العام٠ ومن المرجح أن تكون هناك قيود تحد من المساعدات القادمة من الدول العربية ودول منظمة التعاون الاقتصادي والتنمية والمصادر المتعددة الأطراف، كما أن انتهاء الحرب الباردة وانهيار الاتحاد السوفيتي وضع حدا للمساعدات القادمة من الكتلة الشرقية، بل أصبحت دول تلك الكتلة السابقة تنافس غيرها للحصول على موارد المساعدات الدولية المحدودة٠ ويستدعي هذا الوضع زيادة الاعتماد على تدفقات رؤوس الأموال الخاصة٠

١٥ - وفي هذا الصدد، تتيح رؤوس الأموال الخاصة المهاجرة احتمالات ايجاد حل ملائم، حيث يبلغ مجموع مدخرات أبناء المنطقة المودعة في الخارج ما يقدر بحوالي ١٨٠ بليون دولار٠ وفي حالة بعض الدول - مصر والأردن وسوريا - يفوق حجم موارد أبنائها المودعة في الخارج حجم اجمالي ناتجها المحلي٠ وتشير التجربة الدولية الى عاملين حاسمين في اجتذاب التدفقات المالية الهاربة وعودتها الى دول المصدر٠ أولهما وضع برنامج اقتصادي محلي ملائم، وقد تم بحث هذا الأمر بالفعل٠ وثانيهما تمتع الدولة المعنية بدرجة معقولة من الأهلية الائتمانية الدولية٠ وتوحي الخبرة السابقة أن الدول التي تفوق فيها نسبة الديون الى الصادرات ٢٠٠ في المائة لا تعتبر متمتعة بالأهلية الائتمانية٠ ولذلك، فان توقعات نجاح هذا النهج فيما يتعلق بالتمويل الخارجي تتوقف على حجم المدخرات المودعة في الخارج وعلى حجم عبء ديون كل من الدول المعنية٠ وتشير التوقعات الخاصة بكل دولة من دول المنطقة الى أن مثل هذه الاستراتيجية ستمكن معظم دول المنطقة بالفعل من الخروج من مديونيتها وبلوغ الأهلية الائتمانية والنمو على المدى الطويل٠

١٦ - توحي عملية التقييم التي أجريت في الآونة الأخيرة للسياسات الاقتصادية في أنحاء المنطقة والدراسة الأكثر تفصيلا التي أجراها البنك الدولي للأراضي المحتلة، بالآتي:

- تنفذ عدة دول حاليا - مصر، اسرائيل، الأردن، المغرب وتونس - بعض عمليات الاصلاح التي يوصي بها هذا التقرير، وتشهد تزايد تدفقات الاستثمار الأجنبي المباشر وعودة رؤوس الأموال الهاربة.

- وفي الحالة الخاصة التي تمثلها الأراضي المحتلة، توحي الاحتمالات بنجاح هذه الاستراتيجية ولكن الأمر سيتطلب مساعدات رسمية في المرحلة الأولى نظرا للحاجة الى تحسين البنية الأساسية وزيادة توفير الخدمات الاجتماعية. ومن المقدر أن تبلغ استثمارات القطاع العام المطلوبة على المدى المتوسط (١٩٩٤-١٩٩٨) ٩ر١ بليون دولار (بالاسعار الثابتة لعام ١٩٩٣).

١٧ - تتوفر الأدلة على أن النهج المقترح في هذا التقرير يتم تنفيذه حاليا في بعض دول المنطقة، وذلك في التقدم الذي أحرزته عمليات الاصلاح الاقتصادي. ففي المنطقة عدة دول - المغرب وتونس واسرائيل - تتبع جدول أعمال اصلاحي منذ فترة وحققت نتائج مشجعة. وعلى ضوء هذه النتائج، تشجع كل من الأردن ومصر، فبادر الأردن بتنفيذ عمليات اصلاح، واضطلعت مصر في الآونة الأخيرة بعمليات اصلاح بعيدة المدى. وفي لبنان، ستقطع سياسات التثبيت الاقتصادي المتبعة حاليا شوطا طويلا على الطريق المؤدية الى انتعاش النمو الاقتصادي واستمراريته اذا واصلت البلاد انتهاجها. ولا زالت الجزائر وسوريا واليمن تعاني من مشاكل جسيمة في اقتصادها الكلي والجزئي، ولكنها تبحث الآن اجراءات لازالة اختلالات اقتصادها الكلي، وتخفيض تشوه الأسعار الناجم عن السياسات، وتحسين ادارة الموارد العامة. ومن الممكن الاشارة الى مزيد من الأدلة المتمثلة في تدفقات رؤوس الأموال الخاصة التي بدأت تتجه الى دول المنطقة. ففي مصر، بلغت تدفقات رؤوس الأموال الخاصة ٣ بلايين دولار في عام ١٩٩٢، وبلغت في الأردن ٦ر٠ بليون دولار، وفي لبنان بليوني دولار. أما في الدول التي لا تبلغ الأموال المودعة من جانب أبنائها في الخارج مستويات تذكر، فقد اتخذت تدفقات رؤوس الأموال شكل الاستثمار الأجنبي المباشر. وقد بلغ الاستثمار الأجنبي المباشر في المغرب ٥ر٠ بليون دولار عام ١٩٩٢، وبلغ في تونس ٢ر٠ بليون دولار.

١٨ - وفي الحالة الخاصة التي تمثلها الأراضي المحتلة، أظهرت الدراسة التي أجراها البنك الدولي الحاجة الى تحسينات كبيرة في البنية الأساسية والخدمات العامة، ليس بهدف تحسين

الأوضاع المعيشية بصورة مباشرة فحسب، ولكن أيضا لمساندة أنشطة قطاع الأعمال الخاص وتجنب المزيد من تدهور البيئة. ولذلك، يتعين توفير استثمارات القطاع العام في المقام الأول، وهو ما يتطلب تمويلا خارجيا على أساس فوري. واستنادا الى الالتزامات المطلوبة، تقدر استثمارات العامة (بالأسعار الثابتة لعام ١٩٩٣) بحوالي ٩ر١ بليون دولار على المدى المتوسط (١٩٩٤-١٩٩٨)، مع مبلغ اضافي قدره ٦ر١ بليون دولار على المدى الطويل (١٩٩٩-٢٠٠٤). وسينصب التركيز في المدى المتوسط على اصلاح وتجديد وتحسين البنية الأساسية العامة المحلية والخدمات في قطاعات ومجالات امداد المياه، والمجاري، والنفايات الصلبة، والنقل البري، والكهرباء، والتعليم والرعاية الصحية. واضافة الى ذلك، هناك حاجة الى مساندة تدعيم الخدمات الزراعية وتحسين ادارة شؤون الموارد الطبيعية من خلال تنفيذ اجراءات مكافحة تعرية التربة وتنمية الحراجة. وتتراوح القيمة الاسمية لمتطلبات القطاع العام من التمويل الخارجي المقترنة بذلك في الفترة ١٩٩٠-١٩٩٨ بين ٥٥٠ مليون دولار و٦٠٠ مليون دولار، بما فيها الموارد الخاصة بوكالة الأمم المتحدة لاغاثة وتشغيل اللاجئين الفلسطينيين في الشرق الأدنى [الأنروا] . وتنفق الجهات المانحة حاليا حوالي ١٧٥ مليون دولار في الأراضي المحتلة سنويا، بما في ذلك ما تنفقه وكالة الأمم المتحدة لاغاثة وتشغيل اللاجئين الفلسطينيين في الشرق الأدنى. ولذلك سيتعين زيادة تدفقات المساعدات الخارجية بنسبة ثلاثة أمثال المستويات الحالية لتلبية احتياجات القطاع العام من موارد التمويل.

الخطوات التالية

١٩ - أنيطت مجموعة العمل المتعددة الأطراف بمهمة تشجيع التعاون الاقليمي. ونظرا لضخامة الجهود التي بذلت على عدة مشروعات ومبادرات اقليمية، قد يكون من الملائم الآن الانتقال الى المرحلة التالية. ويتطلب ذلك بصورة خاصة دراسات جدوى مسبقة بهدف توفير أساس أفضل للمفاضلة بين البدائل المقترحة والوصول الى تقديرات أكثر دقة للتكلفة. ولهذا الغرض، تقدر الموارد المالية اللازمة لبدء تنفيذ الدراسات بحوالي ٩ ملايين دولار. وفي هذا الاطار، قد يكون من المفيد في حالة الأراضي المحتلة اعداد مجموعة من المشروعات ذات الأولوية تكون جاهزة للتنفيذ حالما يتم احراز قدر كاف من التقدم في المفاوضات الثنائية. وعملا على تدعيم القدرات المؤسسية، يتعين أيضا الشروع في دراسات تمهيدية وأنشطة تستهدف التنمية المؤسسية في الأراضي المحتلة. وتقدر تكلفة الدراسات التمهيدية وما يلزم من المساعدة الفنية والتدريب المطلوبة على أساس فوري بمبلغ ٣٥ مليون دولار، سينفق حوالي نصفها لأغراض اعداد المشروعات ودراسات الجدوى، والنصف الآخر لأغراض تنمية القدرات المؤسسية. وتوحي هذه الملاحظات بالنتيجتين التاليتين:

- قد ترغب مجموعة العمل في بحث تمويل المزيد من العمل التمهيدي فيما يتعلق بالمبادرات الاقليمية وآلية تنفيذ العمل. ويتطلب ذلك مبلغ ٩ ملايين دولار.

- قد ترغب مجموعة العمل في النظر والموافقة على الشروع في تنفيذ برنامج المساعدة الفنية المقترح للأراضي المحتلة. وتشير التقديرات الأولية المستندة الى الدراسة التي أجراها البنك الدولي أنه سيلزم حوالي ٣٥ مليون دولار لتمويل هذا البرنامج. وقد أنشىء في الآونة الأخيرة صندوق استئمان سيديره البنك الدولي وتقدمت عدة دول وجهات مانحة بتعهدات مالية لتمويله.

ECONOMIC DEVELOPMENT AND COOPERATION IN THE MIDDLE EAST AND NORTH AFRICA

INTRODUCTION

This report presents the results of work undertaken by the World Bank at the request of the Multilateral Working Group on Regional Economic Development. At its meeting in Brussels, the Working Group requested a report on Economic Development and Regional Cooperation in the Middle East and North Africa. At the Paris meeting, the request was expanded to include an analysis of the Occupied Territories and a review of financial flows to the region. This report covers all aspects of these requests (see Box 1 for regional coverage and data sources).

Following this Introduction, the report has five sections. Section I summarizes the economic performance of the region through the boom of the 1970s, the bust of the 1980s, and the aftermath of the Gulf crisis. It argues that the observed swing in performance is in part a reflection of inappropriate domestic policies and in part a reflection of a swing in financial flows to the region. The section concludes by pointing to the low growth rates of production and the high levels of unemployment that prevail throughout most of the region and hence the need to reconsider the basic strategy for economic and social development. Sections II and III begin the task of identifying such a strategy.

Section II explores the scope for regional cooperation. It begins with an assessment of the potential gains from intra-regional trade, labor migration, and capital flows. The main conclusion here is that neither trade nor labor migration can be seen as a full solution to past problems and that capital flows, although potentially of significant magnitude, will materialize only in the event of appropriate domestic reforms. It then turns to a review of the regional projects that have been identified by the World Bank and others. While these are seen as an important means of both contributing to the economic prosperity of the region and providing a physical foundation for increased interaction, they represent only a small fraction of regional investment and thus, by themselves, are unlikely to prompt the resumption of regionwide economic growth. Cooperation can, however, serve to reduce geo-political risks and in turn increase the returns from actions on the domestic policy front.

Section III, therefore, outlines the critical domestic component of the strategy, a component that focuses on the need for higher levels of investment and for more productive investment than in the recent past. It describes the kinds of reforms that are required and projects their likely impact on future economic performance. It then outlines a complementary strategy for external finance by noting that in the past, inflows of capital have accrued disproportionately to the public sector but that in the future a sustainable mode of financing will require a shift towards greater reliance on flows to the private sector. It also assesses whether

the heavy burden of past debt is likely to constrain efforts to move to a growth path based on domestic reform and financed primarily by private inflows.

The paper examines in Section IV the extent to which this strategy is already being implemented in the region. It begins with a summary of regionwide progress on domestic reform. Additional material on Egypt, Israel, Jordan, and the Occupied Territories is provided in Annex 1. It then discusses two economies where infrastructure needs to be rehabilitated before sustainable economic growth can occur -- the Occupied Territories and Lebanon. The analysis of the Occupied Territories draws on a series of missions undertaken by the World Bank at the request of the Working Group to appraise the current economic structure of the Territories, identify investment and technical assistance needs, and draw the financing implications.

The final section discusses next steps. Given the mandate of the Multilateral Working Group on Regional Economic Development, the section focusses on two issues -- first, the actions that the Working Group might undertake with respect to the regional projects and initiatives that have been identified, and second, within that framework, the actions that the Working Group might recommend to support the particular needs of the Occupied Territories. A statistical appendix (Annex 2) completes the paper.

Box 1: Coverage and Data Sources

The report covers Algeria, Morocco and Tunisia in the Maghreb; Egypt, Jordan, Lebanon, Syria, Yemen, and the West Bank and Gaza (the Occupied Territories) in the Mashreq; and Israel. Balance of Payments variables are from the International Financial Statistics data-base of the International Monetary Fund. Macroeconomic variables except those for the Occupied Territories are from the Debt Reporting System and the World Tables data-bases of the World Bank. Macroeconomic data for the Occupied Territories are from the Israeli Central Bureau of Statistics. Information on external debt comes from the World Debt tables published by the World Bank. For Israel, this is supplemented with information from the Annual Report of the Central Bank of Israel. Data on grants are from the Development Assistance Committee of the OECD. In all cases, information for 1991-92 has been provided by the country economists at the World Bank. When data are from other sources, it is noted in the text.

Section I
From Boom To Bust

The regional economic crisis started in the mid and late 1980s. In marked contrast with the strong performance of the late 1970s, both the Maghreb and the Mashreq saw growth decelerate sharply after 1985 to the point where it was barely keeping pace with population growth (see table 1). Between 1985 and 1989 real per capita income was declining at a rate of one percent a year in the Maghreb and 2 percent in the Mashreq. Individual country performance however varied especially in the Maghreb where Algeria's deteriorating economic performance stood in contrast to slowly rising per capita income in Morocco and Tunisia. The situation in Israel was different -- here economic performance improved slightly in the mid-1980s, following a long period of stagnation during 1973-84 and the sharp recession associated with the stabilization policies pursued in 1985.

Table 1: Economic Growth 1970-1992

	Annual Average Growth in Real GDP (%)				
	1970-74	1975-79	1980-84	1985-89	1990-91
Maghreb	5.4	6.3	4.8	1.2	2.3
Mashreq	7.9	10.9	5.4	2.4	-0.9
Israel	7.6	3.8	3.0	4.2	7.2

The swing in performance can be related to many factors, but two are particularly important -- capital inflows and domestic policies. The swing in net financial inflows had a major impact on the availability of resources for investment especially in the public sector. But when the flow of external capital began to shrink, the collapse in economic performance was in several countries much deeper than could easily be explained by declining levels of investment. The productivity of investment must also have declined. This does indeed appear to be the case -- standard measures of the efficiency of investment deteriorated. This in turn is attributed to inappropriate domestic policies.

Fluctuations in Net Inflows

Many countries in the region have received unusually large amounts of net capital inflows over long periods of time.[1] Between 1970 and 1990, these flows averaged 16 percent of GNP in the Mashreq, 14 percent in Israel, and 3.5 percent in the Maghreb. These are very high flows by international standards. Indeed, for several countries they were a more important source of foreign exchange in the late 1970s than exports of goods and services. But, for present purposes, the fluctuations in net inflows are more important than their average values.

1/ Net capital inflows are defined as the balance of goods and non-factor services. Looked at from the financing side, they comprise a variety of inflows (official loans and grants, remittances, foreign direct investme nt) and outflows (debt servicing, capital flight, reserve accumulation).

Table 2 summarizes the region's experience in this respect through the 1970s and 1980s. With one exception -- the Occupied Territories where inflows remained high throughout -- the region experienced a pronounced pattern of boom and bust: inflows were largest in the period 1975-79 and smallest during the period 1985-89. The magnitude of the boom and the timing and severity of the bust varied among countries. In two cases -- Algeria and Tunisia -- boom and bust were relatively modest and gradual. But in most other cases including Morocco, Egypt, Jordan, Syria, and Israel, the boom and/or the bust were of major proportions, amounting to about 10 percentage points of GNP.

Table 2: Net Inflows: 1970-1992

	Percent of GNP				
	1970-74	1975-79	1980-84	1985-89	1990-92
Maghreb	2.5	9.2	1.2	1.0	-0.2
Mashreq	8.5	20.4	19.5	15.2	8.7
Israel	18.8	18.0	12.3	6.8	8.9

THE IMPACT ON INVESTMENT

Net inflows can supplement domestic savings and lead to an increase in investment or they can substitute for domestic savings and lead to an increase in consumption. In the case of this region, there is a clear association between the changes in net inflows and in investment. Fluctuations in net inflows were mirrored in fluctuations in investment in all countries (see table 3), and in some cases, especially Egypt and Algeria, even magnified. Taking the region as a whole, when net inflows increased by about 6 percentage points of GNP during the boom (from 1970-74 to 1975-79), investment increased by 10 percentage points. And during the collapse (1975-79 compared with 1985-89), when net inflows fell by more than 8 percentage points of GNP, investment fell by almost 9 percentage points. There is, therefore, a strong association between net inflows and domestic investment (see figure 1).

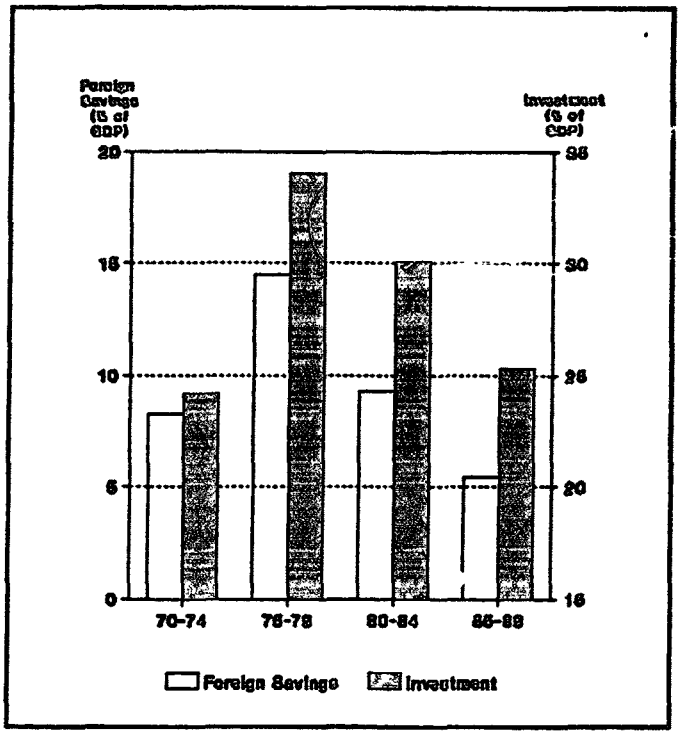
Table 3: Investment 1970-1992

	Percent of GNP				
	1970-74	1975-79	1980-84	1985-89	1990-92
Maghreb	28.4	39.1	35.0	29.4	28.4
Mashreq	15.7	30.7	29.1	24.0	21.7
Israel	30.1	26.2	21.9	17.5	21.6

Changes of this magnitude -- both up and down -- in the rate of investment ought to be reflected in changes of comparable magnitude in the rate of economic growth. But during the

upswing growth rates increased much less than might have been expected given the increases in investment, and during the downswing the collapse in growth was much more marked than would be suggested by the fall in levels of investment. Experience varied among countries -- Egypt and Jordan for example enjoyed increases in economic growth rates that more than matched the increases in investment during the upswing -- but in general the close association between shifts in net inflows and shifts in investment was not reflected in a similarly tight link between investment and economic growth (see Figure 2).

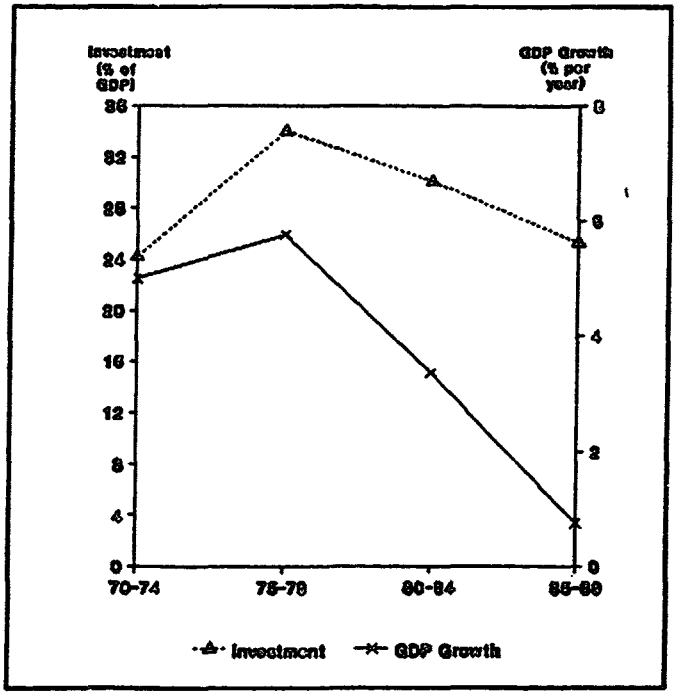
Figure 1: *Net Inflows and Investments: 1970-89*



Domestic Policy

Two aspects of domestic economic policy contributed to this outcome. First, the predominant development strategy throughout the region was one that relied heavily on the state as a locus for investment, the mainstay of production, and a source of employment. Except in Lebanon, the public sector's share of total investment has been high by international standards throughout the region. This general expansion in the public sector was associated with an economic environment that inhibited the growth of private entrepreneurship, shunned the use of markets, and adopted highly protected trade regimes.

Figure 2: *Investment and Economic Growth: 1970-89*



Second, adjustment to the decline in capital inflows also proved damaging to economic growth. The necessary reduction in budget deficits was accomplished mostly though expenditure cuts. This skewed public spending because costly and untargeted consumer subsidies and unusually high military expenditures proved difficult to control. In addition, the public wage bill initially soared in some countries as governments sought to increase their hiring in order to offset rising unemployment elsewhere in the economy. Instead, expenditure

reductions were accomplished in all cases by deep cuts in public investment. Private investment also plummeted due to crowding out by the public sector and the deterioration in the incentive system. The tightening external financing constraint and the inability to expand exports in the short run led to increased import restrictions with further adverse effects on investment and growth.

Attempts to finance the budget deficit domestically also caused distortions in domestic financial markets. Monetization of the deficit led to episodes of high inflation (Algeria, Egypt, Israel, Yemen). Sharp foreign exchange depreciations were undertaken at various points in most countries, but usually only when reserves had been nearly depleted (Algeria, Egypt, Jordan, Lebanon, Syria). Devaluations when they occurred effected negatively the soundness of domestic financial sectors caught with balance sheets dominated by foreign exchange obligations and local currency assets. In addition, governments borrowed heavily from the domestic banking sector at regulated rather than market-determined rates (Algeria, Egypt, Jordan, Syria). These factors contributed to large amounts of capital flight and encouraged the development of an unofficial curb market.

The underlying development strategy and the initial efforts to adjust to changed external circumstances account for the disappointing investment-growth link in the upswing and the disastrous collapse of growth in the downswing. The deterioration in the quality of investment can be gauged by comparing the incremental capital to output ratios (ICORs) over time (see table 4). These ratios show the amount of investment required to produce an annual stream of future income of one dollar. Typically values between 3 (very productive) and 5 (moderately productive) are found in international comparisons. In the Middle East and North Africa, the ICORs have risen in most cases and now stand at unusually high levels. The productivity of investment began to deteriorate in the late seventies when capital inflows peaked. This is understandable -- the rise in investment must have hit decreasing returns. It is more worrisome when the productivity of capital falls at the same time as the availability of capital is reduced. But this is what happened in all countries during the mid-1980s. More recently, the ICORs have come down in the three countries that have been most active in terms of policy reforms -- Israel, Morocco, and Tunisia, indicating that the productivity of investment has risen.

Table 4: Productivity of Investment

	Incremental Capital to Output Ratios				
	1970-74	1975-79	1980-84	1985-89	1988-91
Maghreb	5.6	7.1	8.4	25.9	14.3
Mashreq	2.7	2.8	5.5	9.0	18.1
Israel	4.3	6.6	7.0	4.2	5.0

NET INFLOWS AND DOMESTIC POLICY

The two factors -- net inflows and domestic policy -- identified as important determinants of the changes in regional economic performance are interrelated. This point is revealed in the

way in which the composition of foreign savings is both a facilitator of the development strategy followed in the region and a consequence of the domestic economic policies pursued by the region's governments. Table 5 reveals that of the almost US$130 billion that flowed into the Maghreb, the Mashreq, and Israel between 1970 and 1989 on a net basis, almost 80 percent accrued to the public sector. The percentage was even higher -- over 90 -- for the 1970s and has been consistently high for the Mashreq -- almost 90 percent. Over the whole period the loans (net of principal repayment) and grants received by the public sectors of these countries amounted to US$180 billion. To give a sense of magnitudes, this is about 50 percent of the debt accumulated by Latin America during the same period. In absolute terms, the largest recipients have been Israel and Egypt followed by Syria and at some distance Algeria, Jordan, and Morocco. These inflows contributed to the financing for the expansion of the public sector throughout the region. In this sense, the surge in foreign savings facilitated implementation of a public sector-oriented development strategy.

The sources of finance and their terms have fluctuated over time. Much of the increase in flows to the Mashreq in the 1970s reflected the major event of the period -- the increase in the price of oil -- and the consequent flow of Arab assistance. Elsewhere the causes were different but the result the same. In the Maghreb, Arab assistance was much less important during the boom but assistance from the OECD saw a large increase as did commercial borrowing most of it by Algeria. Israel also saw an expansion in assistance from the OECD.

Table 5. Composition of Net inflows 1970-1989

($ billions)	1970-79 Maghreb	1970-79 Mashreq	1970-79 Israel	1980-89 Maghreb	1980-89 Mashreq	1980-89 Israel
Total net transfers	19.6	24.1	10.4	2.5	61.8	9.9
Of which:						
Public sector	18.0	24.1	7.8	-5.6	53.1	3.1
Private sector	1.7	0.0	2.7	8.0	8.7	6.9
Public sector flows						
Net flow of debt [a]	22.7	17.8	6.3	17.8	38.7	5.0
Grants	0.2	13.1	7.1	0.9	25.5	23.7
Interest payments	-4.9	-1.7	-5.6	-24.2	-11.1	-25.6
Private sector flows						
Worker remittances [b]	8.5	10.5	7.8	21.5	43.5	12.9
Other inflows [c]	1.8	2.0	1.0	2.7	9.7	1.4
Capital Outflows	-8.6	-12.5	-6.1	-16.1	-44.5	-7.5

a. Disbursements minus principal repayment of medium- and long-term debt
b. Includes net private transfers
c. Foreign direct investment and non-guaranteed medium- and long-term debt

Country coverage: Maghreb: Algeria, Morocco and Tunisia; Mashreq: Egypt, Jordan, Syria, and Yemen. Data for Israel, 1973-89.

In aggregate, multilateral, CMEA, and Arab assistance decreased steadily over time, while OECD assistance rose. An important consequence of these shifts in composition has been an increase in the cost of external funds -- the average interest on loans has increased. As debt accumulated and terms hardened, debt service payments increased, reducing the net intake (the net transfer). This has been especially important in the Maghreb and Israel, where it accounts for the decline in the share of total net inflows accruing to the public sectors in the 1980s.

While the dominance of flows to the public sector reflects the sources of financing, the relative unimportance of flows to the private sector reflects reactions to domestic policies. Although remittances from migrant workers have been an important source of flows to the private sectors of the region, they have been offset by large outflows of capital. These outflows -- most of which originate from the private sector -- are motivated by a higher expected return from abroad from the same class of risk, or by a lower risk abroad from the same expected return. Low domestic returns arise when the domestic financial system is repressed, thus reducing the return on financial investment, or when the real side is repressed, reducing returns to real investment. Empirically, periods of capital flight have been associated with periods of exchange rate overvaluation, high domestic inflation, reduced international creditworthiness, and discriminatory taxes. These conditions prevailed throughout most of the region during this period.

By their nature, these capital outflows are difficult to measure precisely. Using the World Bank "Residual" Method (see box 2), the amounts are substantial. For example, the average annual outflow in the 1980s was US$1.6 billion in the Maghreb and US$4.5 billion in the Mashreq. By way of comparison, remittances during this period averaged US$2.2 billion and US$4.4 billion a year in the two regions and other inflows (mainly foreign direct investment) averaged US$0.3 billion in the Maghreb and US$1.0 billion in the Mashreq. Thus, in the 1980s, capital outflows offset almost exactly the inflow of remittances, and foreign direct investment remained small. Both the outflow of capital and the small inflow of foreign direct investment attest to the unfavorable assessment of domestic policies by both domestic and foreign private investors.

CONSTRAINTS TO GROWTH

Besides the quality of policy and the magnitude of available financing, several factors are likely to constrain economic growth in the future. First, rapid population growth is placing unusual strain on the capacity of governments to provide more and better social services. services. Second, the combination of rapid population growth and past patterns of economic growth have led to water scarcity and environmental degradation. And third, rapid urbanization has increased the demands on the provision of urban infrastructure. An additional burden is the urgent need to rehabilitate infrastructure after years of neglect in the Occupied Territories and after war in Lebanon. Each of these factors will increase the investment required to achieve any given rate of economic growth compared with past experience and will have to be factored into any estimate of future requirements.

Box 2: Estimating Capital Flight

Measuring capital flight is difficult. The data presented here (see table below) are based on the "World Bank Residual" method, which uses balance of payments components to determine the residual. It is defined as follows:

Capital Flight = (External Borrowing + Foreign Direct Investment) - (Current Account Deficit + Increase in Reserves)

External Borrowing is defined as the change in external debt, adjusted to exclude private nonguaranteed debt flows and the effects of currency valuation changes and debt reduction. Foreign direct investment, the Current Account Deficit, and the Increase in Reserves are taken from IMF Balance of Payments Statistics. The basic World Bank measure is a "net residual". This is the broadest measure of capital flight, and it includes the change in all external assets, both recorded and unrecorded. These assets include, for example, legitimate portfolio diversificatic and interbank transfers. One factor not taken into account by these measures, however, is extern al trade misinvoicing. As such, these estimates can be considered as erring on the conservative side (although they may also be picking up unrecorded military hardware purchases and in the case of Jordan, remittances to Palestinians in the OT).

Estimates of Capital Flight as a share of GNP *(percent)*

COUNTRY	1970-74	1975-79	1980-84	1985-89	1990
Algeria	3.1	4.5	-0.4	3.4	1.4
Morocco	2.1	1.1	1.1	5.6	-3.2
Tunisia	1.4	2.2	-1.7	3.5	0.3
Maghreb	2.4	3.1	-0.3	3.2	-0.6
Egypt	-0.1	14.5	12.5	9.2	-6.4
Jordan	1.8	1.7	6.2	9.7	5.4
Syria	2.5	7.4	5.5	9.6	..
Yemen [a]	..	..	..	1.6	..
Mashreq [b]	0.5	10.0	9.8	9.8	-4.0
Israel	5.1	6.6	3.6	1.9	3.1
Region [b]	1.8	5.9	3.6	5.1	0.2

a. 1985-89 average refers to 1989 only;
b. Does not include Lebanon and Yemen because of data limitations.

Source: World Bank Debt and International Finance Division

Rapid population growth has complicated economic management and constrained overall progress. With annual growth rates exceeding 3 percent, many countries in the region have among the highest population growth rates in the world. Some countries, such as Tunisia have pursued very active population policies and brought the growth rate down to an impressive 1.9 percent. Other countries, such as Jordan and Yemen, have population growth rates well above 3 percent. The resultant young age structure of the region's population -- 44 percent are under the age of 14, compared with 36 percent for other middle-income countries -- poses unprecedented challenges to the provision of education, health, and housing. Even though much progress was made on some fronts during the last decade, many countries in the region still lag substantially behind the middle-income countries as a whole.

Another common development challenge facing the countries of the region is the environment and, in particular, water scarcity. With few exceptions, countries in the region are rapidly moving towards a water crisis. There are very few untapped sources of fresh water and countries are increasingly mining groundwater aquifers. Rational management of the region's water resources will increasingly require agreements at national and trans-national levels. The region is also experiencing difficult environmental conditions due to the concentration of the region's population, industry, and agriculture along the coast and in river valleys. In rural areas, long term sustainability has been undercut by the loss of arable land to urban expansion, soil erosion from deforestation of watersheds, and deterioration of rangelands by overgrazing.

Rapid urbanization has intensified the demands on public budgets to provide adequate infrastructure. Within the space of a single generation, urban populations have quadrupled. Today, the region's cities house over 50 percent of total population, and are continuing to grow at explosive rates of 4-6 percent a year. Municipal solid waste and sewerage services have been overwhelmed by population pressures. The need to rehabilitate the infrastructure -- roads, sewage systems, power plants, telecommunication, civil administration -- is especially acute in Lebanon and the Occupied Territories. Lebanon has emerged from 16 years of turmoil with major damage to its infrastructure. In the Territories, past provision of public services has been inadequate, especially in the Gaza strip. In both cases, economic growth would not be possible without major investments in infrastructure rehabiiitation.

WHERE DO WE STAND TODAY?

In the early 1990s the region has been buffeted in the aftermath of the Gulf crisis by: a slump in tourism; the return of many migrants especially to Jordan, Lebanon, the Occupied Territories, and Yemen; and tightening resource constraints in the Gulf. Some economies have managed these new difficulties well. Israel and Jordan in fact experienced a construction-led boom (but on a per capita basis, incomes stagnated in Jordan). In the Occupied Territories, a bountiful olive harvest, and a recovery from the 1991 recession led to high growth in 1992. But due to the recent tightening of labor movement with Israel, a severe recession has now taken hold. Other countries have been reasonably insulated -- Tunisia's reform program continues to yield benefits. But the collapse of growth in the 1980s remains the predominant concern of the policy maker. The social implications of the divergence between the job-creating capacity of present growth rates and the demand for jobs from new entrants to the labor market are now fully manifest in the form of high and increasing rates of unemployment (see table 6). These

outcomes point to the urgent need for a new or revised approach to economic and social development. The following two sections address this challenge.

Table 6: Recent Economic Performance

	Estimated Real GDP Growth 1992 *(Percent)*	Unemployment 1990 [a] *(Percent of labor force)*
Egypt	0.3	15
Jordan	11.3	25
Lebanon	4.5 [b]	25
Occupied Territories	7.0 [c]	5
Syria	6.5	20
Yemen	-4.0	26
Algeria	0.4	24
Morocco	-2.6	15
Tunisia	8.2	15
Israel	6.5	10

a. Definitions of unemployment are not comparable across economies. The low rate for the Occupied Territories, for example, reflects the use of the standard ILO definition for unemployment, a definition that is much narrower than that used in most Arab economies.
b. Real GDP growth is for 1991.
c. Average for 1990-91.

Section II:
Regional Cooperation

Regional cooperation in economic relations offers one potentially important direction through which economic performance can be strengthened. There are several reasons for this. Cooperation in the area of trade enlarges the market; allows for gains from economies of scale and for a quicker appropriation of new technologies; and strengthens the bargaining position of the region when negotiating with other trading blocks. Similarly, increased factor mobility generates gains between countries with abundant labor and those with abundant capital. And, in the medium-term, the implementation of high-return regional projects in the fields of communication, water, environmental management, and energy would contribute to prosperity in the region. Finally, and perhaps most importantly, increased cooperation reduces regional tension, sets the stage for arms reduction, and leads to a more favorable growth environment, especially in market economies where strategic uncertainties deter private investment. While actions in all these areas should be vigorously pursued, the question addressed here is whether by themselves they are likely to solve the problems of low growth and high unemployment identified above.

TRADE

Excluding Israel, intra-regional trade has constituted a very small fraction of total international trade of the region (about 6 percent). Intra-GCC trade and intra-Maghreb trade in relation to the total export of each of these groups has been even lower (see table 7). In part this simply reflects the fact that the region accounts for only a small share of the world economy -- about 5 percent. But it also reflects the lack of diversification of the economies in the region. Exports are dominated by primary commodities (oil, cotton, phosphates) and non-traditional exports represent only a small share of the total. The scope for intra-regional trade cannot be increased much in the short term even if regional trade is liberalized faster than trade with the rest of the world. In the long run, intra-regional trade will only rise following the development of a dynamic private sector that has incentives to expand the range and quality of goods produced. As a result, efforts to increase intra-regional trade must be premised on more comprehensive actions designed to develop an active, outward-oriented private sector.

***Table 7: Composition of Exports Originating from the Region as a Share of Total Maghreb and Mashreq Export** (percent)*

	1980	1985	1990
Intra-Maghreb/Mashreq Exports	4.5	6.6	6.0
Exports to EEC	33.5	36.2	31.8
Exports to US and Canada	15.6	7.6	13.5
Memo Items			
Intra-GCC Export/Total GCC Exports	3.0	4.6	5.8
Intra-UMA Exports/Total UMA Exports	0.3	1.0	2.3
Intra-EEC Trade Export/Total EEC Exports	55.7	54.4	59.8
US/Canada Exports/Total Exports from US and Canada	26.5	38.0	33.8
Intra-ASEAN/Total ASEAN Exports	16.9	18.4	17.8

Source: *Global Economic Prospects*, The World Bank, 1992

Experience elsewhere suggests that exposure to international competition is an essential ingredient in the successful development of the private sector. The highly successful East Asian countries, for example, emphasized integration in the global market. And Mexico, another highly successful country, reduced its average tariffs with the rest of the world to less than 12 percent before embarking on a trade agreement with the U.S. and Canada. This suggests that efforts to increase regional trade should be consistent with the gradual integration of the region into world markets. In particular, while intra-regional trade liberalization may precede global liberalization, progress on the former should not be at the expense of advances on the latter. One approach which may be appropriate for some sectors would be to liberalize within the region in order to reap the benefits of a larger market and more competition while providing enterprises with an opportunity to improve their ability to compete internationally, and then proceed to full liberalization. But if such protection is pursued, there should be a clear time-table for phasing it out with the market determining which sectors can swim, and which must sink.

Action in other areas may do more to promote inter-regional trade than trade policy itself. For example, there is scope for significant gains from improvements in infrastructure, banking, and communication networks that support trade. In this respect, intra-regional communication channels have lagged behind international ones, especially in banking and trade-related finance. There is also scope for increased harmonization of regulations and standards.

LABOR

Migration has served an important role in alleviating pressures in domestic labor markets and redistributing wealth from Europe and the oil-rich countries of the Gulf to the labor-surplus countries of the Maghreb and Mashreq. Labor remittances generally accrue directly to millions of recipients, often tenant farmers or landless peasants, and their economic effects are quite different from those of capital flows that occur at the intergovernmental level. Remittances have been substantial, especially for Egypt, Jordan, Lebanon, Yemen and Morocco (table 8). But demand for migrant labor by the Gulf and the European countries has shrunk recently. The crisis in the Gulf, with the attendant movement in populations, dramatically reduced the level of remittances as Iraq, Kuwait and Saudi Arabia released several million Arab workers. In Yemen and Egypt, one million have returned; in Jordan 300,000; and in Lebanon 260,000. Unemployment has shot up and the public sector has had to provide housing, schooling, and other social services to the returnees with detrimental budgetary implications. The shock was to some extent buffeted by the repatriation of workers' savings -- a one-shot event. The continuation of restrictive immigration policies will hurt economic growth in the region. The alternative of greater mobility will alleviate demographic pressures and strengthen entrepreneurship throughout the region, as well as reduce markedly the external imbalances (especially in Jordan, the Occupied Territories, and Yemen) and provide support for economic reform.

Table 8: Worker Remittances [a] as a share of GNP (percent)

Country	1970-74	1975-79	1980-84	1985-89	1990	1991
Algeria	4.4	1.7	0.7	1.4	2.6	3.0
Morocco	2.7	5.4	6.7	8.3	9.3	8.6
Tunisia	2.9	3.5	4.4	4.9	5.9	5.4
Maghreb	3.5	3.0	2.4	3.1	4.8	5.2
Egypt	1.2	8.2	12.1	10.6	13.5	13.3
Jordan	3.0	18.2	18.4	14.3	12.1	10.5
Occupied Territories	20.2	22.9	30.5	26.8	26.4	25.6
Syria	0.8	3.7	3.1	3.1	3.0	2.8
Yemen [b]	n.a.	n.a.	n.a.	6.6	21.8	10.9
Mashreq [c]	1.8	8.1	10.3	9.9	11.5	10.6
Israel	11.4	7.4	4.9	3.8	3.7	3.5
Region	4.6	5.5	5.4	5.2	6.23	6.1

a. Refers to Current Transfers for Algeria, Morocco, Tunisia and Israel.
b. 1985-1989 average refers to 1989 only.
c. Does not include Lebanon and Yemen, because of lack of data.

While labor mobility should be an important part of any overall strategy, it is unrealistic to expect that it can play a major role in resolving current unemployment and providing adequate jobs for future increases in the labor force. Well over 10 million are currently unemployed; past population growth is adding a further 4 million to the labor force every year. But the prospects for increased migration in general in the near future are limited. And anyway, even a return to the levels of migration prior to the Gulf Crisis, would provide jobs for at most 3 million. The solution for the remaining unemployed and for the future labor market entrants must lie with domestic reforms and the resumption of economic growth. As far as remittances are concerned, as credibility in reform programs gathers momentum and as exchange controls are relaxed, potential remittances that had previously been retained abroad or had been diverted to informal markets (Algeria, Egypt, Syria) can be expected to enlarge officially recorded flows. Even so, remittances are likely to fall as a share of GNP in the receiving countries (see box 3).

CAPITAL

As shown in Section I official capital flows from the capital surplus to the labor surplus countries of the region took off with the oil boom in 1973 and increased dramatically during the seventies. But beside some foreign direct investment, especially in the real estate sectors, and

Box 3: What Will Happen to Workers' Remittances?

In the Gulf, a mixture of political considerations and underlying economic fundamentals suggest that, while the non-national labor force will continue to expand, the share of Arab migrants will fall in some countries. For example, if the non-national labor force grows at the 1985-1990 rate of three percent a year and if, as suggested by one source, the effects of the Gulf crisis result in an Arab share of only 20 percent, the 1995 number of Arab migrants in the Gulf would be well below the 1990 number. On the other hand, better economic performance in the labor-surplus countries and hence better investment opportunities may encourage more remittances per worker. Discounting the surge in remittances to Egypt in 1992, this suggests that at best one might expect remittances to stabilize between $5 and $6 billion a year implying a steady decline relative to GNP.

In Western Europe the outlook is similar although the causal factors are different. In this case the flow of migrants has been much more stable and, given moderate growth in Western Europe on the one hand and increased competition for jobs from Eastern Europe and the former Soviet Union on the other, is unlikely to increase dramatically in the foreseeable future. Here then the factors influencing remittances per worker are likely to dominate. The stability of the migration flows from North Africa to Western Europe suggests that ties will be established in the receiving countries and over time families will also migrate. This is a powerful demographic factor which will tend to reduce the flow of remittances. At the same time, a continuation of solid economic performance in Morocco and Tunisia, and a renewal of economic reform in Algeria, could see an increase in remittances as migrants see these countries as attractive investment opportunities. One might speculate, therefore, that total remittances will, at best increase by only one or two percent a year above current levels of about $3 billion a year, again implying a decline relative to GNP.

project-related loans from the Arab multilateral institutions,[2] these flows were mainly in the form of bilateral loans and grants, especially to the frontline Arab states and the Palestinians. Arab aid and bilateral flows have been highly volatile, fluctuating with oil revenues as well as other considerations. These flows dwindled however by the end of the eighties. Arab assistance increased during 1990, when US$4 billion were disbursed (as opposed to less than US$1 billion in 1989) but prospects for future transfers are mixed. Aid to Jordan, Yemen, and the Palestinians was reduced substantially after the Gulf war in 1991. More fundamentally, relatively low oil prices, the fall in reserves related to the cost of the Gulf war, and rising domestic expenditures, make it unlikely that Arab aid will increase dramatically in the near future.

Total Arab foreign direct investment in the Mashreq and Maghreb is small, compared to a portfolio of assets of several hundred billion dollars invested in OECD countries. Clearly, there is considerable scope for increased investment by Gulf businessmen in other Arab countries. International experience, however, has demonstrated that a well performing domestic economy with a well designed and implemented economic policy is an essential prerequisite for substantial inflows of foreign direct investment. Thus, a strong program of economic reform will be the key determinant of direct foreign investment from the capital surplus Arab countries.

2/ As a share of total multilateral debt, Arab multilateral debt stands currently at 25 percent in the Mashreq, and at 14 percent in the Maghreb. For bilateral debt, these shares are respectively 5 and 10 percent.

Regional Projects

Of all forms of regional cooperation investment in physical infrastructure is one of the most attractive because it simultaneously strengthens regional integration and yields substantial economic benefits. Many of the problems confronting the region demand a regional approach. This is obviously true of infrastructural projects designed to foster inter-regional trade and of power projects where the least-cost solution may require participation of more than one country. But a concerted regional effort will be most essential if the serious problems of environmental degradation and water scarcity are to be adequately addressed.

A review by World Bank staff of a large number of possible infrastructural projects led to the selection of five that seem particularly attractive and warrant further analysis. Of the three transport projects, one involves completion and improvement of the key highways linking the countries of the Maghreb. Another entails reconstruction and improvement of the Coastal Highway corridor along the Eastern Coast of the Mediterranean running mainly through Syria, Lebanon, Israel and Gaza. And a third entails upgrading the roads and rebuilding the bridges forming the three East-West corridors between the coast and Israel, the Occupied Territories, and Jordan. In the power sector, two attractive possibilities are the Mashreq Electric Power Interconnection and the Interconnection of the Power Grids of Egypt, Jordan, the Occupied Territories, Lebanon and Syria. In addition, a number of initiatives involving policy coordination, information gathering and improved management activities have been identified, which could be quite important. Among others, these include a proposal for an environmental action plan for the Gulf of Aqaba which would lead to a joint approach to the development of the Gulf involving Egypt, Israel, Jordan, and Saudi Arabia, and a Regional Hydrological Data Network that would provide reliable, consistent, and timely hydrological data throughout the region.

These and similar projects offer a potentially effective means of contributing to regional integration. Others are under discussion in the Middle East Peace Initiative Multilateral Working Groups on Water and the Environment. It will not be feasible to undertake all of them if not for political reasons then certainly for financial ones. Some of the proposals -- the Regional Hydrological Data Network, for example -- are not costly because they are focussed on the generation and use of information for planning purposes. Others, however, would require substantial capital outlays. This suggests considerable flexibility in matching actions to the availability of financing. As an illustration, the total cost of the proposals described above is of the order of US$2 billion over a period of 4 to 5 years. But, as important as these regional projects undoubtedly are, they will at best represent only a small part of total investment in the region -- the total in 1990, for example, was in the range of US$50 billion. This number underscores the importance of ensuring that domestic investment is as productive as possible while simultaneously taking advantage of regional opportunities.

The Need for Domestic Reform

Whether the focus is on trade, labor, capital, or regional projects, the preceding arguments suggest that they cannot be expected to solve the region's unemployment and development problems in the absence of domestic reform. Thus, domestic reform is critical to

reap the full potential of intra-regional trade and capital flows especially those in the form of foreign direct investment. Reform of the domestic economy is also essential given the relative magnitudes involved -- external migration cannot solve the unemployment problem and even well-chosen regional projects will not yield acceptable growth rates of GDP if domestic investment remains unproductive. At the same time, the full potential of domestic reform will not be realized in the absence of regional economic cooperation and the reduction in strategic uncertainty and political risk that such cooperation can be expected to bring. While both avenues -- regional cooperation and domestic reform -- can be pursued independently, it is their interaction that is likely to secure the greatest improvement in regional stability and prosperity.

Section III: Domestic Reform, External Financing and CreditWorthiness

Both the assessment of recent economic performance in the region (Section I) and the review of the scope for regional cooperation (Section II) point to the importance of the domestic component of the strategy aimed at increasing the levels of domestic investment and improving the productivity of that investment. This section elaborates this component of the strategy in three steps. First, it outlines the kinds of reforms that are required and projects their likely impact on future economic performance. Second, it explores a private-sector based approach to external financing. The two steps are connected -- domestic reforms are necessary to attract private financing; private financing will be required because official flows are unlikely to regain the levels experienced during the boom; and private financing, because it is subject to the test of the market, will contribute to the needed improvement in the productivity of investment. And third, the section assesses whether the heavy burden of past debt is likely to constrain efforts to move to a growth path financed primarily by private inflows.

Domestic Reform

What should be done in the short and medium terms at the domestic level to realize the full potential of the region? Countries that have successfully increased the income and welfare of their people and have kept unemployment low have managed their economies such that: output growth has been significantly above the rate of population growth -- by about 2 percent or more; and growth has taken advantage of abundant labor resources by making use of labor. To achieve such rates of per capita growth over the long term, the *quantity* and *quality* of investment must be increased. In particular, when population is growing by 2.5 percent or more a year:

- The rate of investment must remain high -- 25 percent of GDP or more.
- The efficiency of investment and of resource use in general must be increased to achieve ICORs between 5 and 6.

These necessary economic conditions for growth are not yet present in the region. Regional population is growing at a rate of 2.8 percent a year, investment is about 21 percent of GDP, and the ICOR is about 10. This means that output is growing by 2.1 percent a year, below the rate of population growth.

Policy actions to increase the level and efficiency of investment would have to be tailor-made to individual country circumstances, especially initial conditions, implementation capacity, degree of internal consensus, and availability of external support. In general, action is called for in two areas. First, the necessary economic framework must be put in place to encourage higher levels of private investment, and to ensure that such investment makes good use of scarce

resources and contributes to the goals of society, especially that of reducing unemployment. And second, public investment must be redirected towards those needs which are unlikely to be met by the private sector and/or which support the development of an active private sector. Prime among these are actions -- investment in human resources, in infrastructure, and in protection of the environment -- essential to sustain economic growth in the long run.

The key actions to establish an attractive and responsible environment for private sector initiative include:

- *Macro-economic stabilization* with an emphasis on both external and internal equilibria;
- Improvements in *public sector management* including civil service reform and reform and/or privatization of state enterprises in non-strategic sectors;
- *Price liberalization* to bring -- and keep -- key domestic prices in line with those in the rest of the world and reflecting true scarcities;
- *Tax and regulatory reforms* of the labor market, the financial market, and the investment regime to facilitate and encourage private sector activity;
- *Trade reform* to encourage an increased flow of goods and services, both regional and global, increased competition and efficiency, and increased transfers of modern technology.

The need to redirect public investment in part reflects the limited return to past investments and in part the increasing pressure being exerted by the explosion in population. The review of performance in the 1980s has already documented the declining productivity of investment, much of which was public and went for unproductive purposes (such as military spending) and for unprofitable state enterprises. At the same time, population growth has been exerting extreme pressure on the capacity of governments to provide adequate social services and sufficient infrastructure especially in urban areas, and on limited natural resources especially water. Three statistics illustrate the point. The school-age population will increase by 70 million by the year 2025. Urban populations are growing at a rate of 4.5 percent a year. And at least 10 countries are currently classified as suffering from water scarcity.

These factors may impose an additional burden on scarce investment resources but at least part of the burden can be managed by redirecting public spending. This can only be assessed on a case-by-case basis but work on human resources undertaken by the World Bank illustrates the potential of this approach. A three-pronged strategy, including expanded family planning services to reduce future population growth, universal primary enrollment, and provision of a basic package of healthcare, is an affordable option. With an objective of increasing contraceptive usage by 25 percent in the near future and delivery of the basic education and health package to all members of society by the year 2000, the cost would be about 2.5 percent of regional GDP. Some countries -- Israel for example -- are already close to or beyond these norms. For the Arab countries as a group spending for these purposes already amounts to 2 percent of GDP so that the incremental expenditure is likely to be less than one percent of GDP. Modest reallocations from military spending or within the social sectors from

high-cost tertiary education and curative healthcare would be sufficient to cover the additional costs of this human resource package.

To assess the levels of investment required to achieve growth rates that will in turn generate job opportunities for the region's expanding labor force, a simple, country-specific simulation has been undertaken (box 4). While no simulation model can handle all the underlying determinants of growth, the capital-based model used here is a useful tool for quantifying the financing requirements associated with alternative growth paths. The approach adopted involves specifying growth rates of GDP that will be sufficient to absorb expanding

Box 4: Quantifying the Reform Program

Several features of the simulations warrant mention. First, unusually high levels of investment are required where population growth rates approach or exceed 3 percent a year, as in Algeria, Jordan, Syria, and Yemen. In these countries, the per capita stocks of both physical and human capital can be increased only if around 30 percent of GDP is allocated to investment. The problem is exacerbated by high initial levels of unemployment and by population movements. Second, in countries where the productive structure is still dominated by public enterprises, the development of a dynamic private sector is likely to be a long and difficult process. Reform in Algeria, for example, is complicated by the all-encompassing presence of the public sector and will undoubtedly take longer to complete than in, say, Tunisia, where the process is already well advanced. This is reflected in a smaller terminal ICOR in the countries where the reform process is well advanced. In turn, these countries can afford to keep their investment ratios at lower levels -- around 25 percent -- and still produce sizable per capita GDP growth. The lower level of investment in the Maghreb with reform reflects the high level of investment in Algeria prior to reform.

Medium-Term Impact of Reform: Investment, Productivity and Growth [a]

	GDP Per Capita Growth		*ICOR*		*Investment/GDP*	
Region	With Reform	Without Reform	With Reform	Without Reform	With Reform	Without Reform
Mashreq	2.1	-1.6	5	9	28	18
Maghreb	2.2	-0.7	5	12	26	28
Israel	3.0	0.8	5	7	25	21

a. "medium-term" refers to the period following implementation of the main reforms, which itself is assumed to require between 5 and 7 years depending on individual country circumstances.

labor forces and allow for a gradual rise in real wages. It also specifies lower ICORs, on the assumption that the policies outlined above are fully implemented. Accordingly, this is called the "with reform" scenario. In contrast, a second scenario assumes a continuation of current

policies and results in declining GDP per capita, and rising unemployment except in those countries that have already undertaken significant reform -- Israel, Morocco, and Tunisia.

A comparison of the two scenarios allows an assessment of the required increase in investment. Excluding Algeria where investment is projected to fall, and the special reconstruction needs for Lebanon and the Occupied Territories, the required increase in investment amounts to about US$11 billion per year for the region as a whole (US$1 billion for Morocco and Tunisia, US$7 billion for the Mashreq, and US$3 billion for Israel). The large increases required in the Mashreq reflect the combined effect of currently low, levels of investment, rapid population growth, and the needed improvement in physical infrastructure. The extraordinary financing needs in Lebanon and the Occupied Territories would add an extra US$700 million a year over the next 5 years.

To sustain such high expenditures on investment in the medium term, new sources of finance must be found. On the domestic front, resources can be redirected from unproductive activities as noted above. A security arrangement, accompanied by an arms non-proliferation treaty will allow the front-line states to reduce defense expenditures without harming their national security. In turn, this would allow a substantial reallocation of resources to more productive purposes. Domestic saving could also be increased but the scope for action in this area is limited in the medium term by the need to maintain consumption levels. To get a sense of magnitudes, suppose that some reallocation of spending from unproductive purposes and some increase in domestic savings (arising in part from lower public deficits, and in part from higher household savings) can together yield an additional 3 percentage points of GDP in the medium term. While this would be enough to close the gaps in Morocco and Tunisia and reduce the gap in Israel to US$1 billion, the remaining financing needs in the Mashreq would amount to almost US$5 billion a year. Thus, additional external financing will be required for the Mashreq and Israel to reach the desired investment targets; it will also be required in the Maghreb to safeguard against the possibility of shrinking official flows in the future.

External Financing

The need for additional external financing leads to one of the key conclusions of this paper:

- in the future external financing will have to shift in favor of more funding for the private sector.

The argument behind this proposition is summarized here and developed more fully in the remainder of the section:

- past flows of capital have accrued predominantly to the public sector; together with inappropriate domestic policies, this predominance has resulted in inefficient investment, low growth rates, and high unemployment;

- in the future external circumstances are unlikely to allow countries to regain the level of public sector financing achieved in the late 1970s;

- the past exodus of private capital, however, represents an alternative source of funds which could be attracted back to the region with appropriate domestic policies;

- but successful realization of this strategy in the form of adequate and sustained flows of private capital will require not only adoption of appropriate domestic policies but also a resolution to the debt problems confronting several countries.

The first point -- the predominance of flows accruing to the public sector -- and its consequences have already been established. The remainder of this section elaborates the remaining three points.

The contraction in the external sources of public finance that took place since the mid-1980s has already been documented. This situation is not likely to be reversed, requiring a redirection in growth strategy toward more emphasis on the private sector. Indeed, an important argument in preferring a market-based strategy now is that the balance in the availability of external funds is shifting away from public to private sources. Assistance from Arab and OECD countries is likely to be constrained by their difficult fiscal situation. Nor can the region rely in the future on multilateral institutions for increasing levels of net flows. In some cases multilateral institutions have reached exposure levels that limit new lending. In others, such as the Arab multilaterals, new lending is limited because of capital constraints. And, with the conclusion of the Cold War and the collapse of the Soviet Union, the former Eastern Bloc has ceased to be a source of assistance -- at its peak in 1983 CMEA provided the region with US$2.5 billion -- and is indeed now competing with the developing countries for the limited quantities of international assistance.

In total, the region's public sectors received about US$9 billion of net flows in each of 1990 and 1991 (down from an average of US$12 billion in the preceding decade), over 80 percent of which was in the form of grants (instead of 50 percent in the late 1980s). This amount is expected to decrease as the exceptional element associated with the Gulf crisis disappears. In these two years, interest payments amounted to US$7 billion for the region, leaving only US$2 billion in net transfers accruing to the public sector. The net intake however varied among countries. In the Mashreq, the net transfer to the public sector remained sizable in 1990-91 at about 5 percent of GNP, but it was negative and growing in the Maghreb (-1.6 percent of GNP in 1990, -4.3 percent in 1991). All of this suggests that any future strategy should be based on the presumption that flows of external assistance directed to the public sectors of the region are likely to be more in line with those of the bust of the late 1980s than the boom of the 1970s.

In contrast, net inflows accruing to the private sector were the principal source of external finance throughout the region in the past few years: workers remittances, foreign direct investment, and a reversal of capital flight generated inflows of 14.7 and 6 percent of GNP in 1990 and 1991 in the Mashreq, and 5.1 and 7.9 percent of GNP in the Maghreb. This performance with private capital flows indicates what is feasible in the future. The potential for increased future flows resides however with increased foreign direct investment and a reflow of past capital flight, rather than with increased work abroad. In the past, remittances from workers abroad have been the most important source of external funding for the private sector, but the available evidence suggests that in the future remittances will decline as a share of GNP (see box 3).

The critical question then becomes: what can be expected from foreign direct investment and a partial reversal of capital flight? Since the potential for attracting residents' savings held abroad back to the region depends on the size of these holdings, and since the potential for both foreign direct investment and returning savings depends on the perceived degree of creditworthiness in the receiving country, the answer to this question depends in part on the external balance sheet of the region. The combination of the external financing strategy and inappropriate domestic policies that prevailed through most of the last two decades left the countries of the region with two major legacies -- a significant stock of mainly private external assets, and a large stock of mainly public debt. Both have important implications for the design of a future development strategy. Table 9 provides a country-by-country comparison of estimates of the savings held abroad by domestic residents, and the present value of external debt (see box 5). Although there are important variations among countries, for the region as a whole the two stocks are large and of similar magnitude -- about US$180 and US$140 billion respectively. These numbers highlight two of the propositions of this paper -- that past outflows of private capital constitute a valuable source of funds since some of these savings could be attracted back to the region if the circumstances are ripe, but that the existing burden of debt may well prove a severe obstacle to the pursuit of a market-based growth strategy.

Table 9: Accumulated Savings Abroad and Present Value of External Debt, 1991

Country	Stock of Savings Abroad [a] ($ Billion)	Savings Abroad over GNP (percent)	Present Value of Debt ($ Billion)	Present Value of Debt to GNP (percent)
Algeria	32.5	80	28.1	69
Egypt [b]	82.6	271	21.5	71
Israel	19.7	32	33.0	54
Jordan	6.2	163	7.9	208
Lebanon	N.A	N.A	1.8	51
Morocco	9.6	36	19.5	73
Syria	26.1	161	12.1	75
Tunisia	4.5	36	7.5	60
Yemen	N.A	N.A	5.4	74
Region	179.0	90	136.8	71

a. The stock of savings abroad is estimated by capitalizing the outflows described in box 2 at the LIBOR rate.
b. Assuming the full conditional debt reduction granted by the Paris Club goes through.

Sources: World Debt Tables, and Authors' computations (see boxes 2 and 5 for methodology).

On the positive side of the balance sheet, accumulated savings held abroad for the countries where estimates are available (the set of economies studied here minus Lebanon, Occupied Territories, and Yemen) amount to 90 percent of GNP in 1991. This represents more than twice the amount of estimated savings held abroad for Latin America where the recent rebound in economic activity owes much to the repatriation of past capital flight. The potential for a strategy based on attracting back such capital, however, varies among countries. In Egypt, Jordan, and Syria, countries that witnessed acute macroeconomic imbalances and financial

Box 5: Present Value of Debt

The face value of debt fails to account for the term structure and the concessionality of debt, which has an impact on the cash flow burden of external debt. The present value of debt service captures the effect of borrowing concessionality, that is, concessional debt results in lower debt service payments. It is defined as the discounted value of future debt service, and can either be higher or lower than the nominal value of debt. The determining factors for present value being above or below par are the interest rates of loans and the discount rate used in the present value calculation. A loan with an interest rate higher than the discount rate yields a present value that is larger than the nominal value of debt; the opposite holds for loans with interest rates lower than the discount rate.

The discount rates used in the calculation are interest rates charged by OECD countries for officially-supported export credits. They represent, on average, the most favorable terms of fixed rate, non-concessional debt developing countries are able to contract in the international loan market. The rates are currency-specific for mayor currencies and are applied to debt denominated in these currencies: French francs, German marks, italian lire, Japanese yen, British pounds sterling, and US dollars. IBRD loans and IDA credits are discounted using the most recent IBRD lending rate. For debt denominated in other currencies, the discount rate used is the average of interest rates on export credits charged by OECD countries, other than those listed above.

Total debt includes public and publicly guaranteed debt, private non-guaranteed debt, short-term debt (including interest arrears), and the use of IMF credits. For public and private debt not in arrears, the present value of debt service is calculated as the sum of the future interest payments and principal repayments in the next 40 years, discounted to the present. The result is then adjusted by adding short-term debt and the use of IMF credits as well as accumulated principal in arrears. Interest in arrears is included in short-term debt. All of these latter categories are assumed to have a present value equal to their face value.

repression in the past, the ratio exceeds 150 percent. Not surprisingly, these are also the countries where the investment needs are largest. Although smaller, the ratio of savings abroad to GDP is also high in Algeria (80 percent, similar to that for SubSaharan Africa). In comparison, the estimated ratio of savings abroad to GNP is 35 percent for Israel, Morocco, and Tunisia, similar to the average for all developing countries.

The potential of the debt overhang to thwart a strategy based on inflows of private capital also varies in the region. Using as a yardstick the present value of debt relative to exports of goods and non-factor services, Jordan, Syria, Yemen and Morocco are the most indebted countries in the region. All have ratios in the 230 to 260 range. Virtually all countries in the world that have reached debt ratios of this magnitude have encountered serious and long-term debt servicing problems, with a significant negative impact on growth prospects (see box 6). Indeed each of these four countries has experienced debt servicing difficulties in the 1980s. Jordan and Morocco rescheduled with the Paris Club (official bilateral debt or bilaterally-guaranteed debt) and with the London Club (commercial loans). Since these reschedulings were basically at market interest rates with no principal forgiveness, they had no real impact on the present value measure of debt. Yemen and Syria were also unable to meet debt service payments as scheduled and they were not able to reach rescheduling agreements with creditors. As a result, arrears have mounted steadily since the mid-1980s.

Box 6: Debt Overhang and Investment Incentives

The links between public sector indebtedness (external and internal) and private capital flows are tenuous and built on expectations that the future policy regime will be inimical to private sector development. The servicing of external public sector debt requires both an external transfer (from the country to the creditors) and an internal transfer (from the private to the public sector). The servicing of domestic public debt requires an internal transfer. To earn sufficient foreign exchange, devaluations may be needed. And to collect the needed resources from the private sector, various taxes may have to be imposed, including the inflation tax, or the domestic public debt must rise further, crowding out private investment. These events -- as well as the expectations that they may need to take place in the future -- depress domestic savings and investment. When the public sector is financially distressed, private capital tends to flee abroad into safer havens and little goes into long term investment in the home economy until the strategic uncertainty is resolved.

Old debts deter new investors because it is difficult for a government to guarantee their seniority over the old creditors -- even if their debts are not currently being serviced -- as long as the old debts stay on the books. Even if new investors can find profitable investment opportunities, they may perceive the prospects for net profit after taxes as highly uncertain given the long line of claimants on the public purse. The uncertainty created by the debt overhang also exerts a destabilizing influence on domestic financial markets and they become less effective in intermediating between savers and investors. Financial instability is exacerbated when the public sector also has large explicit and implicit liabilities at home.

CREDITWORTHINESS

The levels of external debt, especially in some countries, raises the concern that, even if countries adopt reform programs, the debt overhang will discourage inflows of private capital thereby undermining the overall approach. To explore this issue, a simple simulation model is used (box 7). The model incorporates the main features of the private sector oriented reform programs summarized in box 4, and adds the estimates of the existing stock of debt, future debt servicing, and expected levels of grants in order to compute the next external borrowings (or repayments) by the public sector that are needed to achieve external balance, and thus, the debt ratio at each point in time.[3] If the resulting debt ratios are too high after reforms are completed, the scenario is judged to be unrealistic: the debt overhang is likely to prevent the assumed inflow of private capital from taking place.

The creditworthiness test is brought to bear on the simulations in a fashion that is consistent with recent international experience (see box 8). If after 5 years of reforms, the ratio of debt to exports remains below 150 percent with moderate inflows of grants (specifically, a continuation of the past level of flows), external debt is not seen as a constraint to a market-based reform strategy. At the other extreme, if a country's ratio of debt to exports exceeds 200

3/ These borrowings include possible reschedulings of obligations coming due. To be consistent with the reform program, (a part of) the new public sector borrowings can be passed on to the private sector through the banking system, a reduction in the domestic public debt, or the extinction of other public liabilities (for example, they can be used for severance pay during public sector reorganization).

Box 7: Simulation Model

The simulations are not meant to be realistic projections of likely future developments. Rather, they are constructed to answer a specific question: under the best of circumstances about real reforms, and taking into consideration the current structure of production and demographics, can a country grow faster than its external indebtedness? The goal of the exercise is to find out whether, given the growth prospects and the financing requirements needed to achieve this growth, the outstanding debt is too large compared with the country's capacity to service debt; if the answer is yes, a market-based strategy of growth out of debt will be unlikely to succeed because it would be difficult to convince the private sector that austerity will be maintained long enough to resolve the public sector imbalances and that the fruits from investment will not be taxed away. Specifically, the scenarios assume that:

- Reallocation of public spending from unproductive purposes and increased domestic saving yield an additional 3 percentage points of GDP;
- A full program of reforms is implemented. As a result, the quality and quantity of investment increases over time (as described in box 4);
- The terms on new public sector debt are similar to the average terms of the old debt.
- In Algeria, Israel, and Syria, privatization yields sufficient resources for domestic public debt to be reduced to sustainable levels.

percent even with a substantial increase in grants (specifically, a doubling of past flows), the country would find it hard to attract the assumed private inflows on a sustainable basis. For countries falling in between, it is harder to tell: more in depth country specific studies are required.

Table 10 reports the results. In Israel and Tunisia, the debt ratios remain low and do not constrain future growth. Egypt also belongs to this group, and with the Paris Club full debt

Table 10: Projected Debt to Export Ratios (percent)

Countries	1991	In Five Years	
		Current Grant level	Increased [a] Grant level
Tunisia	124	136	130
Egypt (post Paris Club full debt reduction)	148	115	62
Israel	153	135	66
Lebanon	175	172	139
Algeria	191	88	88
Morocco	235	178	153
Egypt (post first-phase Paris Club debt reduction)	252	212	98
Yemen	244	272	245
Syria	245	255	240
Jordan (pre-1992-93 debt reductions)	259	218	184
Egypt (pre-debt reduction)	331	281	203

a. Increased to twice the current level of grants.

reduction, creditworthiness would continue to improve, stimulating the private sector-led growth strategy further. In Jordan, the ratio of debt to exports will decline fast provided the reform programs are deepened and the current level of grants is increased. But if a grant-based approach turns out to be difficult to implement, measures of debt relief would be required for a market based growth strategy to work. Similarly to Jordan, Syria and Yemen currently face very high debt burdens. In addition they also have large but unmet financing needs. This combination will almost certainly affect the feasibility of a private sector-led strategy. Even a doubling of the current flow of grants would be insufficient to prevent the debt indicator from rising. For these countries, adoption of a program of domestic reform and debt relief would be required to restore economic growth and achieve external creditworthiness.

Box 8: How Large are Sustainable Debt to Export Ratios?

Conceptually, debt ratios are indicators of a country's credit ceiling. When a country's debt is below (or at) its credit ceiling, it is expected to be able to maintain smooth relationships with the international financial market. In such a case, the country retains some (marginal) market access and it can refinance obligations coming due without having to resort to increased taxes. For simplicity, the ratio of debt to exports plus remittances (D/X) is used here as the relevant indicator of the capacity to service debt in the long run.

At what level of debt does a country lose its creditworthiness? A review of the recent debt and debt service reduction (DDSR) agreements can help in deriving some estimates since debt reduction is intended to eliminate the need for constant debt recontracting and ultimately, help bring a country close to creditworthiness. Thus, it needs to be deep enough to allow the country to end up with an outstanding debt close to its credit ceiling. The table below reviews the recent evidence. The ratio of debt to export of countries that benefited from DDSR agreements ranged from 210 to nearly 500 percent just before the agreements were signed. Debt reduction has reduced these ratios to a range of 150 to 200 percent.

The precise debt ceiling is of course country-specific. Debt reduction in Poland and Egypt has produced low D/X ratios by Latin American standards. New investors had to be convinced that they would be repaid in spite of the risks inherent in the radical reforms that need to be implemented. In addition, given the expected costs of reform, the public sector's financing needs are large, and austerity alone could not be expected to achieve internal balance. Thus, debt reduction had to be deep enough to create some headroom for future loans. It is likely that the case of the reforming countries of the Middle East is closer to those of Egypt and Poland than to those of Latin America.

Effect of DDSR Agreements: D/X[a] ratios before and after DDSR

COUNTRY	Just before Agreement	After Agreement 1991[b]
Mexico	266	217
Philippines	223	209
Costa Rica	250	164
Venezuela	211	174
Uruguay	224	225
Poland[c]	496	161
Egypt[d]	331	148

a. Exports includes exports of good and services, plus workers remittances.
b. After the agreement, the present value of debt is used to reflect the interest rate reduction received.
c. Assumes a London club agreement similar to the recent Paris Club.
d. Assumes that the full Paris Club debt reduction is approved.
Source: World Debt Tables, 1992-93.

Section IV: Implementing the Strategy

To generate economic growth and create new employment opportunities, the challenge facing policy-makers in the region will be to implement domestic policy-reforms that can simultaneously improve the quality of the incentive framework, thereby increasing the overall productivity of the existing human and physical capital, and create profitable opportunities to attract new investment on market terms. In addition, there is a pressing need to rehabilitate infrastructure, especially in the Occupied Territories and in Lebanon where major public investments are needed to support renewed economic growth. This section tackles both issues: it first describes the emerging reform strategies in the region, and then reviews the extraordinary public sector investment needs of the Occupied Territories and Lebanon. Additional material on Egypt, Israel, Jordan, and the Occupied Territories is provided in Annex 1.

REFORM

Several countries of the region have been following a reformist agenda for some time with various measures of success. Others are still plagued with serious macroeconomic and microeconomic problems. The strategies followed in terms of policy reform and the impact of those policies on economic growth have been affected by a multitude of structural factors, and in particular, by the elements of the external balance sheet discussed above -- the levels of external assets and liabilities. Accordingly, it is useful to organize the discussion on the progress to date on the reform front along these two dimensions. First, the extent of savings abroad, as countries with large savings abroad have tended to move faster on reforming their financial sector -- a precondition for attracting these funds back -- while countries with little savings abroad have moved faster on real-side reforms. And second, the extent of the debt overhang, which affects both the strength of the supply response and the availability of external financing to smooth the short-run costs of reform.

With respect to the first factor, Egypt, Jordan, Lebanon, Syria, and the Occupied Territories, are cases where success ultimately relies on attracting back past capital flight. This possibility has shaped recent policy measures in important ways, particularly in Egypt, Jordan, and Lebanon where stabilization policies coupled with ambitious policies to liberalize the domestic financial sector and the capital account have succeeded in attracting large capital reflows (in 1992, private capital inflows are estimated at about US$3 billion in Egypt, US$600 million in Jordan, and US$2 billion in Lebanon). The case of Egypt where the implicit taxation of financial intermediaries had generated large capital outflows in the past illustrates well this sequence of reform. The government has moved fast on stabilization and on financial and foreign exchange liberalization: in the past two years, a treasury bills market has been established, interest rates have been liberalized, banks' solvency and prudential regulation have been improved, the foreign exchange market has been decontrolled, the exchange rate has been unified and significant measures were passed in the areas of trade liberalization and price decontrol in the agriculture and industrial sectors (see Annex 1). However, the Government has taken a gradual approach with respect to the privatization of public enterprises. In all these

countries however, investment has not yet increased substantially following reforms. The emergence of a strong supply response will depend on the maintenance of macroeconomic stability and the deepening of structural reform.

A second group of countries have smaller stocks of capital abroad. They have moved fast on real reform and have tended to delay financial reform and capital account liberalization. Their strategy has emphasized in particular trade reforms aimed at increasing efficiency, and the mobilization of domestic savings and foreign direct investment. This group comprises Morocco, Tunisia, and Israel, countries that been following a reformist agenda for some time with some promising results (see box 9 for a more detailed review of the case of Tunisia). While the stage has been set for private sector growth, further action is needed -- on both stabilization and adjustment -- to enhance the dynamism of the supply response. But the needed change is now incremental rather than comprehensive. In Morocco and Tunisia, the foreign direct investment response has been impressive: in Morocco, foreign direct investment averaged US$160 million in 1989-90, rose to US$320 million in 1991 and to over US$500 million in 1992. In Tunisia, the progression has been equally impressive, with US$75 million in 1989-90, US$145 million in 1991, and US$215 in 1992. In spite of the breadth of Israel's reform program (see Annex 1), the supply response including foreign direct investment has been modest. While this can be related to the presence of some inflexibilities, especially in the labor market, perhaps the more important reason is the uncertain geo-political situation. It is becoming increasingly apparent that geo-political instability limits the developmental potential of market-based strategies by depressing the supply-response and shortening investors' time horizon. In many ways, the current situation in Israel may be indicative of the ultimate constraint to growth that all countries of the Mashreq will confront once their reform agenda is well advanced if the peace process does not continue.

Another important difference across countries is in the extent of their external indebtedness. Israel and Tunisia -- the early reformers of the region --- can clearly attract the needed financing and keep their debt ratios low without unsurmountable austerity. The Occupied Territories also belongs to this group (see Annex I). Economic growth has been depressed in recent years by regulatory repression, low levels of public investment, and acute geo-political instability. But with no external debt and large assets abroad, there could be significant growth given the right climate, supported by inflows of official and private capital flows. Given the strategic location of the area and the problems that the Occupied Territories have experienced, there are good prospects for attracting international official assistance to help overcome infrastructural bottlenecks and deficiencies. In addition, private flows to the Occupied Territories from the large and relatively prosperous expatriate Palestinian community in the Arab world and elsewhere would occur when the circumstances are ripe.

Egypt also has a manageable debt burden because of the recent debt reduction granted by its official creditors. In 1990-91, recognizing the unsustainability of the external debt situation, the Egyptian Government's commitment to reform, and the extraordinary situation created by the Gulf war, the major creditors cancelled or restructured about 70 percent of Egypt's external debt. As a result, total external debt has declined from $51 billion in 1990 to about $38.5 billion in mid-1993 and the scheduled-debt-service-to-exports ratio has fallen from 46 percent to 17 percent. Debt reduction took place in several phases. In October 1990, Kuwait, the UAE and Qatar forgave $2.4 billion; in December 1990, the US cancelled $7.1 billion of

Box 9: Reforms in Tunisia

Tunisia is approaching the end of a major economic adjustment that has produced remarkable results and created good prospects for sustained economic growth. From being a highly regulated economy led by a dominant public sector, it is being gradually transformed into an outward-oriented, private-led economy. But it will take some time before institutions and economic agents adapt fully to the new environment.

The adjustment process started in 1986 as a response to a threat of balance of payments crisis. By 1985, it had become clear that the persistent resource gaps (-9 percent of GDP on average during 1981-85) could no longer be financed, especially with the world debt crisis unfolding. Domestic absorption had grown excessively, export growth was sluggish, and Tunisia's oil reserves were being depleted fast. Maintaining high growth while ensuring macroeconomic balances required investment to become more efficient. The alternative would have been to raise the domestic saving ratio, but it was not clear how this could be done, nor that this would lead to improvement since consumption would be lower. The corollary was that the private sector would have to be the main source of investment in a policy environment that ensured its efficiency.

On the macroeconomic front, the distortions that had threatened the economy in the mid-1980s have been reduced to manageable levels with the current account and budget deficits reduced significantly (from 7.3 and 5.5 percent of GDP in 1986, to an average of 3.7 and 3.3 percent over the period 1987-91 respectively). While the investment ratio declined from 30 percent of GDP in the early 1980s to 23 percent in 1992, the ICOR also declined over the same period from 8 to 4.5. As a result, real GDP growth averaged 4.3 percent during 1987-92, exports of manufactures grew on average at 15 percent a year, and inflation remained below 8 percent. The process was aided by a sharp rise in foreign direct investment and a progressive fall in external debt. The debt to export ratio has fallen from 170 percent in 1986 to 125 percent in 1992.

Efficiency improving measures were undertaken on several fronts simultaneously. Since 1987, the liberalization of trade and prices, and the removal of quantitative restrictions on imports which protected 90 percent of agriculture and industry in 1987 have been reduced. A new value added tax has been put in place, and the tax system has been overhauled. The financial sector has evolved from a tightly controlled banking sector into a broad financial market with a diversity of instruments. Treasury bills are now auctioned rather than placed in banks' balance sheets. The process of privatization has been initiated, with 30 enterprises privatized (out of a total of 200 under state control). At the same time, and in keeping with a long-standing tradition, the country has continued with its human resource development efforts during the adjustment phase.

military debt; and in December 1991, Saudi Arabia and the Gulf Organization for the Development of Egypt cancelled $3.8 billion. Finally, in May 1991, Egypt concluded an agreement with the members of the Paris Club to reorganize and reduce its debts owed to the members of the Club by up to 50 percent in present value terms. Debt reduction was scheduled to take place in three phases. The first phase, a reduction of 15 percent, took place in May 1991 after the Fund's Executive Board approved an 18 month stand-By agreement (SPA) (later extended by six months). The second (another 15 percent) is scheduled to take place following the successful conclusion of the SBA and agreement on a successor arrangement (EFF). The latter was approved by the Executive Board on September 20, 1993. The last tranche (20 percent) is contingent upon Egypt's carrying out the agreement and is scheduled to be effected by July 1994. Following the debt relief agreement, large flows of private capital took place and workers' remittances have increased by about a third. Egypt is emerging as an attractive, safe

and convenient alternative place for Gulf residents to maintain part of their savings. However, real growth remained low in FY91-93, while unemployment continued to rise (see Annex 1).

In contrast, the debt overhang in Syria and Yemen has constrained the reform agenda. Both countries still suffer from severe macroeconomic imbalances and microeconomic problems. However, it is not realistic to expect that even if reforms are undertaken, the financial needs of Syria and Yemen can be met throughout their reform program or that a meaningful supply response will materialize because these countries are far from creditworthy. They cannot be expected to grow out of debt unless unrealistically harsh austerity is maintained for a long period, or measures to reduce the debt overhang are pursued.

The remaining countries fall in between these two extremes and have followed cautious reform policies. In Algeria, the situation is close enough to the borderline to exert some destabilizing influence, but creditworthiness is expected to be maintained under the most likely scenario. Growth prospects could however quickly evaporate if oil prices fall. In Lebanon, the stabilization policies being pursued should go a long way towards contributing to renewed growth if they are maintained and if the basic infrastructure is rebuilt. But external debt would rise rapidly if the level of grants does not rise to offset future financing needs related to reconstruction.

Morocco and Jordan present more complex cases. Both have benefitted from some debt reduction. And a continuation of current policies would result in sustainable debt ratios in the future. The question is one of degree: can austerity be maintained long enough to allow for a strategy of growth out of debt to work? In both cases, the debt overhang is likely to exert some negative influence on private capital inflows and investment, unless government resolve on adjustment and reform is perceived to remain strong. The recent experience of Jordan is instructive in this respect. Jordan has initiated a reform program. But its finances -- both external and internal -- remain fragile after the Gulf Crisis. In 1991 and 1992, the investment response has remained modest, particularly in the productive sectors, in spite of significant repatriation of savings by the returnees from the Gulf (at least US$700 million in 1991, and US$600 million in 1992). While this has fueled a real estate boom in 1992, most of the remitted savings ended up as foreign assets: the holdings of the banking sector and the reserve of the central bank increased by about US$2.5 billion in this period. The likely explanation for the lack of a strong supply response is related to Jordan's high level of external indebtedness which deters private investment. Managing the debt overhang is thus a crucial component of any ambitious private sector driven growth strategy. In this respect, Jordan has recently taken a number of steps which are promising for the future: it has regularized its position with the Paris club, with a recent rescheduling; its CMEA debt has been repurchased; and an agreement with its commercial creditors is near conclusion and will result in additional debt reduction (see Annex 1). Nevertheless, Jordan will continue to need generous amounts of concessional assistance as well as debt relief to enable the maintenance of confidence and attract private capital flows from abroad.

INFRASTRUCTURE

In both the Occupied Territories and Lebanon, significant improvements in public infrastructure and services are needed not only to improve living conditions directly, but also to support private business activities and economic growth in general. In both cases, international support is required.

The recent World Bank study of the Occupied Territories (see box 10) revealed that the economy appears capable of generating sustainable economic growth provided there is peace and stability in the region and provided the economy is soundly managed with a mix of prudent macroeconomic policies, expanded public services, support for private sector development and an expansion of trade to the region and the rest of the world (see Annex 1). Significant external capital flows -- both private and public -- will be needed during the take-off partly to help overcome the existing deficiencies in public infrastructure and services and partly to augment the production base for private sector activities. In contrast to important gains in private incomes and consumption over the past two decades, the provision of public services and physical infrastructure in the Occupied Territories has remained highly inadequate. Although the coverage of services, particularly in the major urban areas, is fairly high, quality is poor. This applies to urban water supply, solid waste collection and disposal, and the physical condition of the road network. In addition, electricity supply for villages is insufficient. Public provision of social services is also inadequate. Educational facilities, libraries, and laboratories are in poor condition, the curricula require modernization, and the qualifications of educational personnel in almost all positions need to be upgraded. And while the Occupied Territories devote an unusually large share of their output to the health sector, the health impact is below what could be expected from this expenditure.

In assessing the future investment and technical assistance needs of the Occupied Territories, three main phases have been distinguished linked to the likely time frame of the ongoing peace negotiations: Phase I, the *immediate term*, extends to the time when an agreement is reached in the bilateral peace talks on interim self-government. It is assumed that new external assistance for financing investments is not available during this phase. Phase II, the *medium term*, covers the period from the end of Phase I until the time when final political arrangements regarding the Occupied Territories are in place. Phase III, the *long-term*, refers to the post-peace period, following agreement on the final political arrangements. The duration of these phases will depend upon progress in the peace talks. However, for the purposes of this report, it is assumed that the immediate phase will not extend beyond mid-1994 and that the medium term will last for a period of five years thereafter. The analysis of investment and technical

Box 10: The Occupied Territories

The Occupied Territories (OT) consist of the West Bank and Gaza Strip. Excluding East Jerusalem, the OT has a combined area of about 6,000 sq. kms; a 1991 population of about 1.7 million; a GNP of about US$2.9 billion; and a GNP per capita of US$1,715. The population of East Jerusalem is about 300,000. In addition, there are about 135,000 Israeli settlers residing in some 150 settlements that have been built in the OT over the past 25 years. Most of the data on the OT are, directly or indirectly, from official Israeli sources, which treat East Jerusalem as part of Israel. Data on East Jerusalem from Palestinian and Israeli non official sources are sparse. Thus, the figures presented in this report relate to the OT excluding East Jerusalem.

assistance needs has been based on the assumption that there would be no large population movements in the periods under consideration. The recent Declaration of Principles signed between the PLO and the Israeli Government suggests that this assumption may have been overly conservative, leading to an underestimate of investment needs.

The prioritizing and phasing of the various investment and technical assistance programs being considered for the Occupied Territories are based on several principles. First, that public sector investments should support rather than preempt private initiative. Second, that it would not be feasible during the medium term to implement investments whose design and viability depend upon agreement on the eventual political arrangements (such investments are considered for implementation only in Phase III). Third, that the investment program for the medium term would need to recognize the limited institutional capacity, especially during the early years. Fourth, that all feasibility studies and project preparation work for the long-term investments would occur in Phase II while those concerning the medium term are included for financing in the immediate term. Finally, technical assistance and training to support institution-building, manpower development, improvements in the Occupied Territories database and analytical work to sharpen policy choices facing the Occupied Territories should be launched as early as possible.

Based on the above framework, the World Bank report originally estimated public sector investments (in constant 1993 prices) at US$1.35 billion for the medium term and US$1.6 billion for the long term (table 12). The focus during the medium term should be on the rehabilitation and upgrading of the public infrastructure and services in water supply, sewerage, solid waste, road transport, electricity, education and health. In addition, some assistance would be needed for strengthening agricultural support services and for improving natural resource management through erosion control measures and forestry development. The tentative priorities for the long term include, besides the completion of the rehabilitation works started in Phase II, power generation facilities and high voltage transmission lines (preferably as part of a regional power grid), selective capacity expansion in the main road network, capacity expansion in health and education systems, the design of a modern education curriculum, the strengthening of university education and the improvement/construction of airport facilities.

The projections developed in the World Bank report were based on some simplifying assumptions that seemed reasonable at the time of writing. In particular, costs related to the issues of security needs, initial investment expenses associated with setting up of a government, and returnees were ignored in the analysis. On the basis of the discussion during the technical meeting held in Washington in late September, some of these assumptions have been relaxed. In particular, additional capital expenditures amounting to about $60 million a year related to security, government infrastructure, and support for housing, have been added to the baseline estimates, which are presented in Table 12.

Table 12: Public Sector Investment Needs in the Occupied Territories [a]
(US$ million, constant 1993 prices)

Item	Medium Term[b] (1994-98)	Long Term (1999-2003)
Water & Wastewater	280	200
Transport	330	500
Power	350	600
Solid Wastes	100	.
Education	190	160
Health	60	90
Agricultural Supply Services	20	10
Natural Resource Management	20	40
Occupied Territories	**1,350**	**1,600**

a. Figures shown are for commitments during the indicated period. Actual disbursements may lag commitments by up to three years.
b. About US$70 million of these investments could be launched as soon as financing is available.

Because of limited information, the estimates here are merely indicative of the broad investment priorities and the likely investment magnitudes. The picture is particularly cloudy in this respect for long-term investments where the usual data limitations are further reinforced by design uncertainties related to the outcome of the ongoing bilateral negotiations. To ensure that scarce aid resources make the greatest possible contribution to improved living standards in the area, detailed project feasibility studies are needed in most cases. In addition, technical assistance and training are needed to foster institutional development and enhance implementation capacity. The cost of the preparatory studies, technical assistance and training proposed for the immediate term is estimated at US$35 million. A further US$50 million of technical assistance would be needed over the medium term (table 13). Slightly over half of the technical assistance would be for project preparation and feasibility studies. The rest would be for institutional development.

The public sector is not expected to finance its fiscal deficit internally in the next five years. The projected fiscal deficit amounts to 12.5 percent of GNP in 1994 ($420 million), declining to an average of 9.2 percent over the period 1994-98, or $385 million per year in current terms, and going back to near balance by 2003 when the extraordinary investment program is completed. This does not account for possible financing debt service obligations as the financing for the next few years are expected to be available externally and on a highly concessional basis. To arrive at the financing needs on a commitment basis requires assumptions on the speed at which disbursement can take place, which is taken to be 70 percent (as opposed to an average annual disbursement ratio of 0.85 in the initial report) given the likely institutional constraints. Under these assumptions, the financing needs on a commitment basis amount to

Table 13: Technical Assistance Needs in the Occupied Territories [a]
(US$ million, constant 1993 prices)

	Short Term [b c] (1993)	Medium Term [c] (1994-98)
Water and Wastewater	8.0 (6.5)	10.0 (8.5)
Transport	6.0 (4.5)	12.0 (8.5)
Power	7.0 (3.0)	7.0 (5.0
Solid Wastes	1.5 (1.0)	. .
Education	4.0 (3.5)	1.5 (1.5)
Health	1.0 (1.0)	1.0 (1.0
Agriculture	1.5 (0.5)	2.5 (0.5)
Local Government & Public Administration	1.0	3.0
Housing	0.5	2.0
Monetary, Fiscal and Trade Issues	0.5	0.5
Institutional Framework for Public Utilities	1.0	1.5
Socioeconomic Studies and Surveys	2.0	2.5
Business Support Services	0.5	1.5
Occupied Territories	35.0 (20.0)	50.0 (25.0)

a. Figures shown are for commitments during the indicated period. Actual disbursements may lag commitments by up to two years.
b. Some of this technical assistance may have been initiated recently with support from bilateral and multilateral donors.
c. Figures in parenthesis are the respective technical assistance amounts required for project feasibility studies and project preparation work.

$575 million for 1994, rising to an average of $610 million over 1994-98. Given existing sources of financing of about $125 million a year, the remaining financing gap (on a commitment basis) amounts to $400 million in 1994, rising to an average of $475 million over the five year period. This assumes that the new Palestinian self-governing authority will collect all the taxes paid by Palestinians, including those accruing now to the Israeli Treasury.

The above discussion raises the issue of the terms on which external aid to the Occupied Territories during the transitional period would be extended. Currently, all official aid to the Occupied Territories -- whether through UNRWA or from other sources -- is in the form of grants, as the aid is mostly of a humanitarian nature and there is no legal entity to lend to. In view of the large uncertainties involved at this stage, the World Bank study has not analyzed the external borrowing capacity of the Occupied Territories in the transitional period and beyond. As the Occupied Territories does not currently have any external debt, there is clearly some scope for borrowing. Care should be taken, however, not to overburden the economy and strain future growth. Given the likely fragility of the public sector revenues and of exports during the transition period, the external assistance to the Occupied Territories over the short-term should include an element of concessionality. An additional argument is that public debt must remain low to elicit the flow of private capital in the future.

While the challenges faced by the Lebanese economy are different from those of the Occupied Territories, the need to rehabilitate infrastructure is just as pressing. With the destruction of much of the nation's infrastructure and productive assets and dislocation of its human capital after an extended civil war, the reconstruction of the Lebanese economy is a daunting task, and is expected to require massive capital investment, development of human resources, and rebuilding of institutions over a protracted period of time. By training its unemployed manpower, restoring the pre-war quality of education, re-equipping labor with infrastructure and productive capital stock, and tapping the resources of its large expatriate community, Lebanon could rebound and restore rapid growth. Lebanon's reconstruction and development should be responsive to the needs of the private sector whose vigor and dynamism remains the country's main asset. Especially in the initial stage of reconstruction, government involvement will be crucial as restoration of basic physical and social infrastructure, to be undertaken by the government under the National Emergency Recovery Program (NERP), is the most urgent need.

The government envisages a phased strategy for rebuilding Lebanon's ravaged economy and addressing social problems, consisting of a short-term emergency reconstruction phase followed by a medium-term recovery phase. The NERP provides for initial urgent investments, which will be made concurrently with the identification and implementation of longer-term development strategies in the various sectors. The NERP is designed as a multi-sectoral operation, focussed on removing critical infrastructure bottlenecks, alleviating pressing social problems, and strengthening the existing institutions in charge of planning, financing, and implementing the NERP.

All principal sectors of Lebanon's economy are characterized by widespread damage to physical assets and the obsolescence of remaining facilities, given the reluctance during the years of conflict to invest in new capital or spend on maintenance. The serious damage sustained to basic infrastructure in virtually all sectors now presents the most immediate obstacle to economic revival. In terms of infrastructure, the NERP focuses on rehabilitation of the transport, power, telecommunications, water supply, sanitation, and solid waste disposal sectors. In the social sectors, the NERP focuses on the complex issue of housing and resettlement of displaced persons, rehabilitation of the health sector, and the upgrading of the education sector.

Overall, the cost of the NERP is estimated at US$2.3 billion for 1993-96. The amount of loan and grant financing required during 1993-96, about US$600 million per annum, can only be raised if Arab and other donors are willing to support Lebanon. Current indications are that this may indeed be the case, but financing for the NERP will need to be confirmed in the context of a Consultative Group to be convened in late 1993. Although the level of public debt is projected to increase five-fold to about US$1.8 billion over the next four years because of the external financing required for the NERP, debt indicators would remain low, thanks to Lebanon's current low level of external indebtedness. By the mid-1990s the ratio of external public debt to GDP is projected to be less than 20 percent and the ratio of public debt service to exports to be less than 5 percent.

Section V
Next Steps

This report has presented a strategy for the region that rests on three pillars: regional cooperation, domestic policy reform, and external financing mainly from private sources. The analysis suggests that, with the exception of two countries -- Syria and Yemen -- where exceptional measures of debt relief may be required, pursuit of this strategy is feasible and beneficial. The case of Jordan is more complicated; the continuation of the present economic reform efforts and policies is imperative for economic success, as is the continuation of concessional external financial assistance and debt relief. For the region as a whole, with regional cooperation, domestic policy reform and external financial support, growth rates capable of providing productive employment for fast growing labor forces can be achieved. Much of the implementation of this strategy rests with the countries of the region. The international community can and should support such efforts through a continuation of official assistance, through more open trading arrangements, and through efforts to encourage private investment in the region.

Given the increased scarcity of official flows, targeting will be crucial. There are five areas in which official assistance can play an important role. The first is to assist in the design and financing of regional projects. The second is to provide financing for the reconstruction of infrastructure in Lebanon and in the Occupied Territories. The third is to help in smoothing the costs of adjustment in countries undertaking reform programs, including the financing of social safety nets and severance pay programs to shield the poor and those adversely affected by reform. The fourth is to ensure that markets for regional exports keep expanding in the future. And the last is to provide debt relief for the countries that are willing to adjust, but where the debt overhang does not allow a market-based strategy to work. Each of these areas warrants support by the international community. But what role can the Multilateral Working Group play given its mandate to encourage regional cooperation?

An obvious area of focus by the multilateral working group is the financing of regional projects. Considerable work has now been undertaken on several regional projects and initiatives. To advance this work to the next stage, pre-feasibility studies are required to provide a better basis for choosing among designation and arriving at more precise cost estimates. For the infrastructural projects provisionally identified by the World Bank, seed money amounting to US$9 million would be required for further work on feasibility studies and technical analysis. Funding for such activities needs to be established and a mechanism developed for implementing the work. The special needs of the Occupied Territories could also be considered within this framework. To have a shelf of priority projects ready for implementation as soon as adequate progress has been made in the bilateral negotiations and to strengthen institutional capacity, preparatory studies and institutional development activities should be initiated. Preliminary estimates based on the World Bank study of the Occupied Territories indicate required funding of about US$35 million. A Trust Fund, to be administered by the World Bank, has recently been launched for the purpose of providing the proposed technical assistance.

ECONOMIC DEVELOPMENT AND COOPERATION IN THE MIDDLE EAST AND NORTH AFRICA

ANNEX 1: SELECTED ECONOMIC PROFILES

November, 1993

Economic Development and Cooperation in the Middle East and North Africa

Annex I: Selected Economic Profiles

The annex presents more detail on four economies discussed in the review of regional progress in Section IV of the main text.

EGYPT

After the 1973 war and the introduction of the "Open Door Policy" in 1974 Egypt experienced rapid economic growth until the mid-1980s (8 percent real growth per year on average), stimulated by high oil prices, large workers remittances and tourism revenues, and substantial foreign borrowing, primarily from bilateral sources. During this period, Egypt pursued an import substitution and public-sector-led development strategy with public enterprises playing a dominant role in supporting an ambitious program of reconstruction and infrastructure rehabilitation. In the mid-1980s however, the economy was hit hard by the sharp drop in the price of oil, the increase in world interest rates, and the start of the regional economic recession. By the end of the 1980s, output growth had decelerated to less than that of population growth.

The slow process of adjusting to these negative shocks depressed investment and economic growth. The reduction in the budget deficit was mainly accomplished by cuts in public investment (which fell from 18 percent of GDP in 1982 at the height of the expansion to less than 13 percent by 1990). At about 20 percent of GDP, the deficit remained large throughout the decade. This was financed initially by foreign loans, but as the external debt grew (reaching 150 percent of GDP in 1989), the gap had to be increasingly filled with revenues from the implicit taxation of financial intermediation (i.e, government borrowing at less than market interest rates) and the implicit taxation of money holdings through inflation, leading to distorted prices and increased dollarization. Crowded out by public deficits, constrained by an array of regulations, and squeezed by smaller savings, private investment also fell by about 25% during the decade. Unemployment was first contained by public hiring, but as the fiscal crisis deepened, public sector hiring was constrained and open unemployment shot up, rising from 7.5 percent of the labor force in the mid-seventies to around 12 percent by the end of the decade.

In 1990, the economy was again hit hard, this time by the economic ramifications of the Gulf war, as hundreds of thousands of Egyptian workers returned from the war zone. Faced with a rapidly deteriorating economic situation, the Government embarked on a comprehensive adjustment program to tackle the macroeconomic disequilibria and structural imbalances and restore growth. The Government's strategy has been to create an enabling environment for private-sector-export-led growth. Key objectives of the Government's program were: to stabilize the economy and achieve internal and external equilibrium and to liberalize the financial and foreign exchange markets; to restructure the economy and increase the efficiency of resource use through price liberalization, decontrol of investment, and the rationalization of the regulatory framework to reform and privatize public enterprises; and, to strengthen and improve the social safety net to minimize the negative effects of the reforms on the poor.

Over the past three years, the Government has succeeded in initiating a major transformation of the economy. In particular, the Government has successfully stabilized the macroeconomic environment with the budget deficit falling to about 4 percent of GDP in FY1992-93 and the inflation rate to 11.2 percent, from a level of some 25-30 percent at the start of the program. The overall balance of payments moved into a large surplus since 1991 (US$5.9 billion in FY1991-92 and US$3.9 billion in FY1992-92, as opposed to an average deficit of US$2 billion a year in the recent past), and the current account reached near balance in 1993 (excluding official transfers, the current account deficit was reduced to US$0.4 billion in FY1992-93). At the same time the level of net international reserves held by the Central Bank soared to about US$15 billion (15 months of imports) by mid-1993. The improvement in the external balance reflects the impact of the macro-economic adjustment, the debt reduction granted to Egypt by its major creditors, private capital reflows and workers remittances, exceptional grants and increased revenues from the Suez canal and oil exports.

The reform process was greatly enhanced by the debt relief granted to Egypt by its major creditors. In 1990-91, about 70 percent of Egypt's external debt was cancelled or restructured. As a result, total external debt has declined from US$51 billion in 1990 to about US$38.5 billion in mid-1993 and the scheduled-debt-service-to-exports ratio has fallen from 46 percent to 17 percent. Debt reduction was scheduled to take place in three phases. The first phase, a reduction of 15 percent, took place in May 1991 after the IMF's Executive Board approved an 18 month Stand-By Arrangement (SBA) (later extended by 6 months). The second (another 15 percent) is scheduled to take place following the successful conclusion of the SBA and agreement on a successor arrangement (EFF). The latter was approved by the Executive Board on September 20, 1993. The last tranche (20 percent) is contingent upon Egypt's carrying out the agreement and is scheduled to be effective by July 1994.

Following the debt relief agreement and the macroeconomic adjustment, large flows of private capital took place with about US$5 billion repatriated since 1992. Since June 1991, the private sector has been drawing on its foreign exchange accounts while increasing its domestic currency denominated deposits in the banking system. This reverses past portfolio choices which were predominantly composed of foreign currency assets and domestic currency liabilities. In addition, workers remittances have increased by about a third as Egypt is emerging as an attractive, safe and convenient alternative place for wealth holders resident in the Gulf to maintain part of their savings. The Central Bank has been sterilizing most capital inflows (about two-thirds). This policy helped to stabilize the nominal exchange rate.

The government has moved fast on fiscal and monetary stabilization and on financial and foreign exchange liberalization. On the financial side, a treasury bills market has been established, interest rates have been liberalized, banks' solvency and prudential regulation have been improved, the foreign exchange market has been decontrolled, and the exchange rate has been unified. A sales tax has been introduced, prices in the agriculture and industrial sectors

have been liberalized and subsidies significantly reduced, particularly in energy. Several barriers to trade and private sector investment were removed.

Real output remained virtually stagnant in FY1991-92 and grew slightly in FY93, while unemployment continued to rise. High real interest rates and weak domestic demand have dampened the response of private investment to the reforms. Most recently, the Government has launched the second phase of its Economic Reform and Structural Adjustment Program, the aim of which is to accelerate growth and employment and to complete the transition successfully while offsetting its negative short-term effects through a well-designed social safety net. Liberalization of the trade regime, reform of the tax system, reform and deregulation of the financial sector, and reform and privatization of public enterprises constitute the core of these reforms.

ISRAEL

The Israeli economy grew at a fast pace until the early 1970s (about 6 percent a year on a per capita basis). Growth was fueled by generous inflows of foreign capital: unilateral contributions from the World Jewry and the U.S government, German reparations, and loans (mainly from the U.S). After 1973 however, the limitations of a government-led growth strategy became increasingly apparent. Growth was more modest, with periods of stagnation, persistent double-digit inflation, worsening fiscal and balance of payment deficits, and increased public debt.

The economic stabilization program undertaken in 1985 reduced macroeconomic imbalances and inflationary pressures. The stabilization process was facilitated by a shift in U.S. assistance from a loan to a grant basis.[1] This also led to a steady improvement in the debt indicators. By 1991, the (gross) external debt-to-export ratio had fallen to about 150 percent (or 60 percent of GDP), half its level during the mid-1980s. Public debt also fell markedly, from 150 percent of GNP in 1985, to 90 percent in 1992. Its domestic component, however, remains high at over 70 percent of GNP. At the same time, and in contrast to the other countries of the region, the private sector seems to hold relatively little capital overseas -- only an estimated US$20 billion. Thus, and in relation to the other countries of the region, the related issues -- heavy debt burden and large volumes of capital accumulated abroad -- are somewhat less applicable to Israel. The private sector does not seem unduly constrained by liquidity constraints or by worries flowing from a heavy debt overhang, so that, even if large flows of repatriated capital cannot be expected a private sector-led strategy is feasible, provided domestic policy is supportive and recourse to official debt is managed prudently. The goal of reducing public debt over time imposes tight constraints on the ability of the government to finance fiscal deficits in the future.

1/ This process was further enhanced by the conversion of part of Israel's long-term debt to the U.S. into partially collateralized long-term bonds completed in 1989.

The turn-around in the fiscal account -- from a fiscal deficit that averaged 10 percent in the first half of the 1980s, to near balance in the second half of the 1980s -- laid the ground for structural change. Following a consumption-led mini-boom during 1986-87, (3 percent per capita growth), the hardening of the public sector budget constraint (especially in firms controlled by the labor unions) and high real interest rates generated a recession during 1988-89 (about zero percent per capita growth) and a steady rise in unemployment. This exposed the limits imposed by the rigidities of the labor, capital, and goods markets, and led to an increased recognition that a private-sector-oriented growth strategy would require -- in addition to fiscal probity -- major structural change aimed at increasing the efficiency and competitiveness of the economy. Accordingly, an ambitious program of reforms was initiated. Its major goals are to integrate Israel in the world economy by reducing the role of the state in the economy, increasing the flexibility of the labor market, opening the trade regime, and deregulating financial markets.

Reform has been implemented gradually. The most conspicuous change has taken place in the real sector, especially on the trade front. Since 1988, the economy has been increasingly opened to international competition in the context of free trade agreements with the European Community and the US which were followed by a gradual elimination in tariffs. The exchange rate was unified in 1993. And in 1991, most non-tariff barriers on imports from third world countries were replaced by custom duties (with the exception of agriculture), some of which are expected to be gradually reduced. Export subsidies have also been reduced over time.

Reform of the capital and money markets is well advanced. Reserve requirements and mandatory purchases of low yield government bonds by financial institutions are being phased out, and a larger share of government securities is marketable. The capital account is being opened more slowly. Most restrictions on borrowing abroad by domestic residents have been removed, and there is more scope for domestic agents to hold foreign assets and for foreign agents to repatriate profits. As a result, the private sector's net external claims have grown and now amount to 16 percent of net external debt. But at the same time, the ongoing integration of Israel in the international financial market is making it increasingly difficult to implement an independent exchange rate and monetary policy. For example, a recent attempt to lower interest rates while sticking to a pre-determined exchange rate devaluation schedule had to be reversed after this policy led to large private capital outflows.

The privatization program, initiated in 1991, has progressed slowly, (only about US$800 million worth of assets being divested during 1991-92) but is expected to accelerate in 1993. In manufacturing, the public sector and the labor unions still account for 60 percent of investment and produce 45 percent of output. Public sector firms, especially in the military sector make large losses and have yet to be restructured. Agriculture, which accounts for about 5 percent of GDP, is about one third private, with the remaining two-thirds in a troubled financial position. Another area of concern is the slow change in the banking industry which remains characterized by a lack of competition and difficulties created by inefficient but large

borrowers. Here too, the process of privatization has just begun (the industry is virtually owned by the state after the banking crisis of 1983).

Over the past three years, Israel's economy has been hit by a major supply-side shock in the form of an inflow of immigrants that has already led to a population increase of about 10 percent. The government has accommodated the housing needs of the immigrants by providing them with subsistence grants and training, but has counted mainly on market forces to create new employment opportunities. The cost of these programs -- about 7 percent of GDP a year during 1990-92 -- has been financed by increased taxation and a moderate rise of the public sector deficit which now stands at about 2.5 percent of GDP.

Official estimates of future financing needs related to this immigration have varied. They are now estimated at about US$6-10 billion for the next 5 years, provided investment demand rebounds. This is the same order of magnitude as the US loan-guarantee program. However, if this program is used to fill a large part of the external financing needs, the current private sector-led growth strategy may suffer a temporary setback unless a mechanism is found to channel a large share of these funds to the private sector.

Since 1990, real GDP growth has average 6 percent a year. Given the increases in the population, and the slow integration of the new immigrants into the labor force, this impressive performance translates into a relatively small growth in per capita GDP (about 1 percent a year). In addition, growth remains fragile. In 1990-91, the economy was boosted by a boom in construction (25 percent increase per year) related to the ongoing migration; in 1992, exports, and in particular tourism, recovered from their depressed levels during the Gulf war. Activity will need to be channelled to other sectors in the future as these one-off factors disappear. But while the business sector has shown some dynamism recently (for example, competitive exports have grown at 8 percent a year), reflecting the continuing process of improved efficiency and profitability (the return on capital is over 13 percent in real terms), there is no massive investments in the types of industries that can sustain growth. At the same time, unemployment has increased and now stands at 11 percent.

Clearly, it would take time to fully integrate the new immigrants in the economy. However, the modest per capita growth and increased unemployment of the past two years are a cause for concern. After rapid growth during 1990 and 1991, investment has stabilized at only 22 percent of GDP, in spite of the existence of a current account surplus. This is clearly not enough to sustain long-term growth and reduce unemployment quickly. This moderate supply response can be related to two main factors.

- *First*, macro imbalances have risen somewhat, the reform process has slowed down, and the labor market is still characterized by inflexibilities, in spite of the recent measures introduced to increase mobility and delink wage agreements across sectors.

- *Second*, and perhaps more important, the uncertain geo-political situation seems to be exerting a dampening effect on investment, with private investors preferring to wait on the side-line and invest in financial instruments rather than put their funds at risk in long-term business ventures. Similarly, foreign investment, an important vector of change and efficiency improvement, remains depressed.

In many ways, the current situation in Israel may be indicative of the ultimate constraint to growth that all countries of the Mashreq will confront once their reform agenda is well advanced. Unless the peace process moves ahead in the near future, it will become increasingly apparent that geo-political instability limits the developmental potential of market-based strategies.

JORDAN

The Jordanian economy suffered a severe shock in 1967 with the loss of the West Bank which constituted an important part of its production base. In addition, an estimated 300,000 Palestinians moved to Jordan following the 1967 war, thus adding pressure on resources. By 1991, Palestinian refugees from the 1948 and 1967 wars were estimated at about one-third of Jordan's population of 3.7 million. Jordan has also extended substantial financial help to the West Bank during the 1970s and 1980s. This financial assistance has amounted to over $760 million during the period 1967-91.

After a deep recession during 1967-73 in the aftermath of the 1967 war Jordan enjoyed unprecedented growth in its income and expenditures during 1973-84, boosted by foreign assistance and loans, workers' remittances, and exports to regional markets. This ended in the mid-eighties as a result of the collapse in the price of oil and the subsequent slowdown in regional economies. As a consequence, Jordan experienced a drastic decline in growth, which became more pronounced after 1986 -- by 1991, real per capita income had declined to about half of its value during the pre-crisis years; unemployment and poverty had increased; and the income of the middle class was substantially eroded. The Government responded in 1989 by undertaking policy adjustments to stabilize the economy and to restore growth. The stabilization policies, notwithstanding the disruptions caused by the Gulf crisis in 1991, have been persistent and largely successful.

Jordan now faces reduced external transfers. Given the reduction in aid, especially from Arab sources, resources for investment must come in the form of direct foreign investment and from the savings accumulated abroad by Jordanians. One recent crude estimate (which does not take into account the savings accumulated abroad by migrants but includes as savings the remittances to Palestinians in the OT) places the stock of savings abroad by residents in 1990 at over 100 percent of GNP. This indicates the possible magnitudes of return flows provided that the domestic policy environment continues to improve. Partly prompted by fears of expropriation abroad, the returnees from the Gulf brought back some of their accumulated savings (at least US$700 million in 1991, and US$600 million in 1992). This fueled a real estate boom in 1992.

Private investment in other sectors also increased as many returnees opened new businesses. However, most of the remitted savings ended up as foreign assets: the holdings of the banking sector and the reserve of the central bank increased by about US$2.5 billion in this period.

While structural reforms offer the best prospect of encouraging investment in productive activities, the task is challenging. Jordan's main comparative advantage in the recent past has been to educate and export highly skilled workers to the Gulf states. With this option now partially closed and with a small internal market, a growth oriented strategy aiming at greater integration with the world economy is needed. Such a strategy has been followed for a few years with some initial success. At present, the country has a narrow industrial base -- manufacturing accounted for only 11 percent of GDP in the period 1985-89 and 30 percent of exports. While dominated by large joint venture projects between the public and private sectors, (fertilizer, cement, refined oil product), the sector also comprises a large number of small- and medium-sized private establishments engaged in the production of processed food, pharmaceuticals, chemicals, textiles, footwear, furniture, and various engineering and building materials.

The boom of the 1970s has left Jordan with a well developed infrastructure. Thus, over the medium-term, public sector investment can be maintained at the present level without unduly hurting growth prospects, and the acceleration of growth can be achieved by increasing the use of existing capacity and improving the business environment. The viability of such a strategy has increased recently thanks to the post-Gulf-crisis rise in Jordan's stock of human and financial capital. In recent years investment has stabilized at 25 to 30 percent of GNP, a relatively high level, but one which masks important deficiencies in the structure of capital formation. Public investment now stands at about 7 percent of GDP. Private investment has rebounded in 1990-92, but it is mostly concentrated in residential construction.

Jordan has a very high level of external indebtedness, with debt ratios well in excess of countries that have retained access to international capital markets. The debt overhang is likely to deter private capital inflows particularly those oriented to investments in the productive sectors. While the public sector's debts are large, private agents and the domestic banking system hold large reserves abroad. Thus the main issue is one of internal transfer: while the country may have the capacity to repay its external debts, the public sector may not be able to extract the needed resources from the private sector without seriously hurting economic activity. Managing the debt overhang thus emerges as a crucial component of any ambitious private sector driven growth strategy. In this respect, Jordan has recently taken a number of steps: it has regularized its position with the Paris club, with a recent rescheduling; it is seeking international assistance with higher grant element than in the past; it is reported that all of CMEA debt has been repurchased recently; and discussions with the London club are well advanced, and likely to result in additional debt reduction. Nevertheless, in addition to maintaining the thrust of current domestic policy reform, Jordan will continue to need a combination of generous amounts of concessional assistance and debt relief to provide private investor confidence and to attract capital flows from abroad.

THE OCCUPIED TERRITORIES

The World Bank's study of the Occupied Territories of the West Bank and Gaza is presented as a separate report and summarized here. This summary first reviews the legacy of past development in particular in the areas of labor, trade, and the provision of public services, and then examines the future prospects and discusses the type of strategy that can generate sustainable growth for the future.

At the risk of some oversimplification, the economic performance of the Occupied Territories over the past 25 years has been characterized by two imbalances:

- *rapid growth in private incomes but inadequate provision of public infrastructure and services;* and
- *an unusual reliance on the export of labor relative to the export of goods.*

Specifically, while the current per capita income levels in the Occupied Territories are about thrice the level that prevailed at the start of the occupation, public provision of physical infrastructure and social services has not kept pace. And labor exports to the Gulf and Israel have, until recently, played a much more important role than trade in commodities which itself has been highly influenced by the links with Israel.

The economy of the Occupied Territories grew rapidly between 1968 and 1980 (average annual increase of 9 percent in per capita real GNP), triggered by a number of factors, including the rapid integration with Israel and the regional economic boom. In the early years of the occupation, there was a sharp expansion in the employment of unskilled Palestinian labor in Israel and a rise in incomes, which in turn spurred domestic economic activity, especially in the construction sector. Earnings of Palestinian workers in Israel rose from negligible levels in 1968 to almost one quarter of GNP in 1975. The rapid growth in the economy continued even after economic growth in Israel slowed in the mid-1970s following the first oil crisis, as skilled Palestinians from the Occupied Territories increasingly found employment in the Gulf. As oil prices increased, so did the remittances of Palestinian workers and transfers from oil-rich Arab countries, offsetting weaker opportunities in oil-dependent Israel. Since unskilled labor played a central role in the growth, the poor benefitted, and as a result, in all likelihood, there was a reduction in poverty in this period.

After this period of high growth during the 1970s, growth started slowing down with the end of the regional boom in the early 1980s, and decline set in after 1987. Between 1980-81 and 1986-87, GNP per capita increased by only 13 percent, and GDP per capita by only 5 percent. Export growth also stagnated during this period. The situation was exacerbated after 1987 with the *Intifada* and the Gulf war, which caused disruptions in economic relations with Israel. Periodic border closures and strikes adversely affected employment and trading activity.

Exports fell sharply after 1987 and never fully recovered. In 1991, merchandise exports were estimated at US$248 million, compared with US$395 million in 1987. The border was effectively closed for several weeks in 1991 during the Gulf war, causing large income losses. There was also a large decline in the number of hours worked; in 1991, the number of hours worked in Israel was about 75 percent of the 1987 level. In the aftermath of the Gulf war, many Palestinians also lost employment in the Gulf countries, leading to a significant decline in remittances from abroad; in turn, the reduced purc ing power adversely affected domestic economic activities. As a result, the per capita incon vels hardly increased during the 1980s -- a major turnaround from the almost explosive growth of the 1970s.

In contrast to impressive gains in private incomes and consumption, the provision of public services and physical infrastructure in the Occupied Territories is highly inadequate. Although the coverage of services, particularly in the major urban areas, is fairly high, the quality of services is poor. The average urban water supply, for example, is only about 60 liters per capita per day (compared to 115 for Tunisia, 137 for Jordan and 230 for Egypt), mainly because of limited access to water resources and inadequate investment. Due to supply constraints and network deficiencies, current electricity consumption of about 680 kwh/capita/year is also low compared to Egypt (815) and Jordan (1,055). Some 138 Palestinian villages have no electricity supply or only a part-time supply from isolated diesels. Suppressed peak demand is estimated at 30-50 percent. Solid waste collection and disposal is grossly inadequate, raising serious health and environmental concerns. There are no modern sanitary landfills in the Occupied Territories. Refuse, if collected, is simply dumped outside municipal boundaries and often burned to reduce volume, leading to air pollution. While the length of road networks per capita is typical of a country with similar per capita GDP, the physical condition of the roads serving the Palestinian population has deteriorated to the point where, without immediate rehabilitation, past investments may be completely lost. Most of the network needs to be improved through pavement strengthening and many sections of the system need to be upgraded through improved vertical and horizontal alignments.

Public provision of social services is also inadequate. Educational facilities are in poor condition. Many school buildings require major repairs. Libraries and laboratories are generally inadequate, as are supplies of textbooks and materials. The curricula require modernization, and the qualifications of educational personnel in almost all positions need to be upgraded through pre-service and in-service training. The frequent school closings since the beginning of the *Intifada* have reportedly led to increased dropout rates, a breakdown in discipline and a deterioration in student achievement. Widespread violence has also produced an alarming growth in the population that is physically or mentally disabled. The Occupied Territories devote an unusually large share of their output to the health sector (7 percent of GNP) but do not obtain the health impact that should be expected from this expenditure. Several reasons for the poor performance are apparent. First, most social resources are being used to provide costly, high technology, hospital-based care for the benefit of the relatively well to do. Second, very small, inefficient hospitals have been allowed to proliferate (over two thirds of all

hospitals have fewer than 100 beds). Third, highly specialized procedures are being carried out by units that are too small either to exploit economies of scale or to provide physicians and staff with enough practice to maintain skills. Finally, too little attention is being given to reaching out to disadvantaged groups, especially women.

The second imbalance is that between labor and trade. Over the past 25 years, Palestinian employment has grown dramatically in two areas: unskilled work in Israel and higher-skill services throughout the world, but particularly in the Gulf countries. In contrast, domestic employment increased quite slowly during the period. Prior to the 1967 war, the West Bank and Gaza had no economic relations with Israel. That changed rapidly after the occupation, and the number of Palestinians working in Israel rose to 75,000 in 1980 and to 109,000 by 1987; these workers accounted for 35 percent of the employed population in the West Bank and 45 percent in Gaza. This source of growth accounted for a large part of the growth in the labor force until the *Intifada*. Employment was overwhelmingly in unskilled and semi-skilled work; construction employed the most workers; and wages were around the Israeli minimum wage. Only 2 percent of the Palestinians working in Israel were engaged in professional, technical, and clerical occupations.

The future prospects for these labor markets, however, do not look promising; most Gulf demand for Palestinian labor has dried up in the wake of the Gulf war. The deteriorating security situation, and the increasing restrictions on the movement of people since the onset of the *Intifada* in 1987, and again in 1993, are threatening the continuing access to the Israeli labor market. Prospects in nontraditional labor markets in Europe and other Arab countries also do not appear good. Meanwhile, given the rapid population growth of the past, and the unusually low current labor force participation rate (especially for women), the labor force is set to double before 2010, even without considering the return of any Palestinian expatriates to the Occupied Territories in the wake of a peace agreement.

On the trade side, the period saw a major redirection of trade towards Israel. The regulatory and security restrictions on trade with and via Jordan, the Arab boycott of Israel as it relates to the Occupied Territories, as well as various impediments to trade with the rest of the world, have acted to distort the overall pattern of trade. From no trading relations before the occupation, Israel has become practically the sole trading partner of the Occupied Territories. An analysis of trading patterns based on the size of the economies, geographical proximity and cultural similarities suggests that, in the absence of the above restrictions, Israel's share in Occupied Territories trade would have been much lower; and Egypt, Jordan, and the Gulf and OECD countries would have become significant trading partners. The disproportionate dependence on Israel for trading relations is partly linked to the relative attractiveness of subcontracting to Israeli firms, and has also resulted in inefficient sourcing of inputs for Occupied Territories firms.

As the economy of the Occupied Territories tries to reduce its future dependence on labor flows to Israel, it also needs to improve its trade position by promoting exports, developing efficient import substitution and diversifying its trading relations. Significant improvements in public infrastructure and services are needed not only to improve living conditions directly, but also to support private business activities and to avoid environmental degradation. Past distortions and a series of adverse shocks, especially in areas critical to past sources of growth, are leading to economic stagnation and putting at risk the past gains in living standards.

Although the Occupied Territories suffer from serious structural problems and imbalances and have a very limited natural resource base, they also have substantial assets:

- The Occupied Territories are blessed with a relatively high quality human resource base. Despite significant outmigration, there is generally no shortage of either entrepreneurial talent or professional skills.

- Given the right climate, there could be significant private capital flows to the Occupied Territories from the large and relatively prosperous expatriate Palestinian community in the Arab world and elsewhere.

- Because of their unique religious and cultural heritage, the Occupied Territories have the potential for developing into an important tourism center. The tourism industry was the mainstay of the economy of the West Bank before 1967. The geographic location of the Occupied Territories, and the fact that the Palestinians now have experience in trading with both the Israeli and Arab economies, should also make the Occupied Territories important transit points for future trade within the region.

- Unlike most developing countries, the Occupied Territories do not have to deal with the burden of crushing external debt. Public finances are also close to balance, and there is neither a bloated bureaucracy nor any loss-making public enterprises.

- Given the strategic location of the area and the problems that the Occupied Territories have experienced, there are good prospects for attracting international official assistance to help overcome infrastructural bottlenecks and deficiencies.

Political settlement and peace is a necessary, but not a sufficient, condition for economic development in the Occupied Territories. Much will also depend upon the *quality of economic management* in the post-peace period and the strategic choices made in managing the Occupied

Territories economy. Forecasting the pattern of growth is a highly uncertain business. However, assuming sound economic management, it would be reasonable to expect a relative expansion of domestic over external employment. Over time, a substantial diversification in economic relations would also be probable, with greater interdependence among economies in the region and an expansion in trading relations outside the region, notably with Europe. As regards the likely changes in the production structure of the economy, there is undoubtedly some room for expansion in agricultural and industrial production, once the present constraints on private sector development are removed, including access to outside markets. However, this point should not be overemphasized. Diminishing water resources throughout the region will constrain the development of the agricultural sector with future growth limited to high-value export crops catering to niche markets. Given the paucity of industrial raw materials and the small market size, heavy industry is unlikely to be a major contributor to future growth. Instead, skill-based, light- and medium-sized industries would appear to be more promising. Above all, the economy of the West Bank and Gaza is likely to remain mainly a service-oriented economy with an important contribution made by the tourism sector.

Economic Development and Cooperation in the Middle East and North Africa

Annex 2: A Regional Data-Base

November, 1993

Economic Development and Cooperation in the Middle East and North Africa

Annex 2: A Regional Data-Base

***Annex 2-Table 1: Foreign Savings [a] as a share of GNP** (percent)*

COUNTRY	1970-74	1975-79	1980-84	1985-89	1990	1991	1992 [d]
Algeria	3.18	6.33	-3.61	-0.51	-3.40	-8.83	-4.48
Morocco	1.76	15.35	12.23	5.39	6.18	5.93	5.88
Tunisia	2.51	8.30	8.33	3.69	7.49	5.09	4.62
Maghreb	**2.48**	**9.22**	**1.23**	**1.02**	**0.51**	**-1.73**	**0.56**
Egypt	7.85	18.80	16.95	15.42	13.28	7.39	11.48
Jordan	28.40	45.74	44.70	26.55	34.04	24.81	30.48
Occupied Territories	30.60	33.03	37.27	34.45	30.69	41.42	..
Syria	3.37	15.11	14.16	5.35	-16.17	-7.11	8.03
Yemen [b]	n.a.	n.a.	n.a.	14.42	12.76	6.97	..
Mashreq [c]	**8.54**	**20.37**	**19.47**	**15.16**	**8.31**	**6.04**	**11.71**
Israel	18.80	18.01	12.30	6.84	6.30	9.63	10.65
Region	**8.25**	**14.48**	**9.28**	**6.44**	**4.06**	**3.99**	**6.89**

a. Negative of the balance of goods and non-factor services
b. 1985-89 average refers to 1989 only.
c. Does not include Lebanon and Yemen.
d. Foreign savings for Egypt and Iran are for fiscal year 1992 and data for Syria refer to balance of goods only.

Source: IMF Balance of Payments, World Bank International Economics Department

Annex 2-Table 2: Real GDP Growth

COUNTRY	1970-74	1975-79	1980-84	1985-89	1990	1991
Algeria	5.18	6.20	5.25	-0.06	-1.46	1.19
Morocco	4.70	6.45	3.25	4.34	4.04	4.83
Tunisia	8.72	6.33	4.22	3.28	7.64	3.80
Maghreb	**5.41**	**6.26**	**4.75**	**1.18**	**0.66**	**2.29**
Egypt	5.14	10.94	6.99	2.92	2.54	2.27
Jordan	5.84	14.05	-14.06	-11.06	-11.71	-20.76
Occupied Territories	9.57	7.75	0.43	7.17	20.01	..
Syria	13.29	6.49	2.98	3.39	14.04	8.20
Mashreq	**7.55**	**9.65**	**4.78**	**2.95**	**4.63**	**-1.47**
Israel	7.60	3.82	2.95	4.18	6.14	7.12
Region	**6.40**	**6.56**	**4.39**	**2.28**	**2.91**	**2.24**

Source: World Bank International Economics Department

Annex 2-Table 3: Per Capita Real GNP Growth (percent)

COUNTRY	1970-75	1975-80	1980-85	1985-90	1990	1991	1992
Algeria	2.3	2.6	2.1	-3.0	-4.0	-3.2	-1.7
Morocco	2.2	3.6	0.4	2.0	2.9	2.2	-4.6
Tunisia	6.6	3.6	1.3	1.3	6.6	0.7	7.6
Maghreb	**2.9**	**3.1**	**1.9**	**-1.5**	**-1.4**	**-1.5**	**-1.2**
Egypt	3.2	7.4	3.6	0.6	-2.4	0.0	0.3
Jordan	2.5	13.2	0.2	-15.8	-19.2	-9.9	8.8
Occupied Territories	11.2	5.5	-1.0	3.8	12.4	-9.1	..
Syria	9.5	3.2	-0.7	-0.9	11.9	4.1	3.0
Mashreq [a]	**5.3**	**6.9**	**1.7**	**-0.8**	**0.5**	**0.2**	**-0.6**
Israel	4.1	1.5	1.1	2.5	3.1	1.6	2.8
Region	**3.9**	**3.7**	**1.5**	**-0.6**	**0.1**	**0.2**	**0.6**

a. Does not include Lebanon and Yemen

Source: World Bank International Economics Department

Annex 2-Table 4: Investment a as a share of GNP (percent)

COUNTRY	1970-74	1975-79	1980-1984	1985-89	1990	1991	1992
Algeria	37.63	46.87	38.24	31.83	30.53	31.48	31.59
Morocco	18.04	28.00	26.70	24.31	26.03	23.16	25.95
Tunisia	23.16	30.94	32.05	23.64	27.59	24.30	25.47
Maghreb	28.44	39.13	34.97	29.41	28.97	27.58	28.64
Egypt	15.19	32.26	30.75	25.56	24.49	21.98	18.51
Jordan	17.06	32.04	38.46	25.08	32.05	26.36	34.00
Occupied Territories	13.55	21.30	23.12	21.51	19.85	17.03	n.a.
Syria	17.26	29.04	24.44	19.64	16.24	n.a.	n.a.
Yemen [b]	n.a.	n.a.	n.a.	18.92	16.88	14.52	n.a.
Mashreq [c]	15.73	30.72	29.11	21.81	21.54	19.52	18.32
Israel	30.09	26.17	21.91	17.50	18.26	22.00	21.90
Region	24.11	33.99	30.67	23.73	23.42	23.37	23.35

a. Gross domestic investment
b. 1985-89 average refers to 1989 only
c. Does not include Lebanon for the years 1970-84; 1991-92 are estimates

Source: World Bank International Economics Department

Annex 2-Table 5: Incremental Capital Output Ratio *(percent)*

COUNTRY	1970-74	1975-79	1980-84	1985-89	1988-91 [b]
Algeria	6.39	8.06	8.71	-569.34	24.01
Morocco	4.25	4.82	7.42	5.14	10.68
Tunisia	3.88	5.19	7.71	6.49	3.81
Maghreb	**5.63**	**7.08**	**8.44**	**25.92**	**14.33**
Egypt	2.83	2.55	3.66	7.01	8.78
Jordan	6.47	4.79	-7.81	-13.26	-4.88
Occupied Territories	1.52	3.66	69.65	4.01	7.15
Syria	..	4.21	9.57	5.65	2.19
Mashreq [a]	**2.72**	**3.09**	**6.25**	**7.56**	**13.27**
Israel	4.31	6.55	6.96	4.24	3.81
Region	**3.65**	**5.54**	**7.59**	**11.22**	**9.43**

a. Does not include Lebanon and Yemen
b. 1991 GDP used to calculate ICOR for Occupied Territories

Source: World Bank International Economics Department

Annex 2-Table 6: Total Public Sector Finance, Net Flows [a] ($ billion)

COUNTRY	1970-74	1975-79	1980-84	1985-89	1990	1991	Total 1970-91	Cumulative Share of Grants	Cumulative Share of Non-conc.
Algeria	2.21	12.40	1.48	4.75	-0.06	-1.32	19.46	-2.81%	51.34%
Morocco	0.58	5.10	5.56	3.70	1.39	0.91	17.24	12.64%	16.61%
Tunisia	0.47	2.10	1.88	1.30	0.29	0.41	6.46	13.45%	19.47%
Maghreb	**3.26**	**19.60**	**8.92**	**9.75**	**1.62**	**0.00**	**43.16**	**5.80%**	**32.69%**
Egypt	2.27	11.87	15.70	12.03	3.65	3.40	48.90	34.32%	24.84%
Jordan	0.98	3.57	6.97	5.63	0.86	0.50	18.49	66.29%	10.13%
Lebanon	0.15	0.49	1.42	0.49	0.27	0.17	3.00	83.25%	12.71%
Syria	1.09	6.04	12.43	11.39	-0.73	0.09	30.32	54.31%	0.89%
Occupied Territories	..	..	0.85	0.91	0.18	..	1.95	100.00%	0.00%
Yemen	0.23	1.58	3.59	2.37	0.30	0.21	8.28	43.40%	1.13%
Mashreq	**4.72**	**23.55**	**40.97**	**32.81**	**4.53**	**4.36**	**110.95**	**48.26%**	**13.31%**
Israel	3.82	10.83	9.37	14.43	2.80	3.88	45.15	83.70%	8.02%
Region	**11.81**	**53.98**	**59.27**	**56.99**	**8.96**	**8.25**	**199.25**	**47.10%**	**16.31%**
MEMO ITEMS (shares)	← in Percent →								
Bilateral, Arab [b]	27.84	28.46	24.04	9.02	45.49	12.33	21.63		
Bilateral, OECD [b]	29.68	36.44	59.11	40.35	75.17	76.27	47.36		
Bilateral, CMEA [b&c]	2.88	0.77	9.26	15.37	-7.13	-2.06	7.03		
Multilateral, Arab	0.09	4.04	1.20	2.58	0.76	-2.24	2.12		
Multilateral, IBRD/IDA	2.05	2.98	3.99	4.24	4.66	3.51	3.68		
Commercial [d]	33.08	24.63	-6.12	12.48	-16.23	-12.37	9.15		
Grants	43.41	31.00	44.69	53.64	94.67	84.47	47.52		
Concessional	14.94	20.37	25.58	23.40	4.14	20.49	21.70		
Non-Concessional	41.61	48.63	29.71	22.97	1.12	-4.96	30.77		

a. Net flows include grants and concessional and non-concessional loans
b. Bilateral flows include guaranteed export credits
c. Does not include CMEA grants due to data unavailability
d. Commercial credits include bonds, banks and suppliers' credits

Source: World Debt Tables, Bank of Israel

Annex 2-Table 7: Net Flows [a] from OECD Donors ($ billion)

COUNTRY	1970-74	1975-79	1980-84	1985-89	1990	1991	Total 1970-91	Share of Grants	Share of Non-Conc.
Algeria	0.86	4.47	3.84	2.22	0.78	-0.61	11.55	16.44%	80.30%
Morocco	0.62	1.37	2.72	2.28	0.46	0.13	7.58	34.97%	34.95%
Tunisia	0.56	1.21	1.35	0.97	0.24	0.17	4.49	40.25%	26.84%
Maghreb	2.04	7.05	7.91	5.47	1.48	-0.31	23.62	26.91%	55.58%
Egypt	0.21	4.51	14.22	11.28	3.09	3.75	37.03	40.65%	30.49%
Jordan	0.34	0.67	1.30	1.29	0.64	0.67	4.91	34.03%	37.12%
Lebanon	0.02	0.09	0.25	0.31	0.06	0.06	0.79	95.91%	0.47%
Occupied Territories	..	..	0.08	0.18	0.03	..	0.28	100.00%	0.00%
Syria	0.01	0.27	.32	0.25	0.05	0.11	1.02	38.19%	1.59%
Yemen	0.08	0.18	0.55	0.67	0.15	0.18	1.82	81.03%	0.88%
Mashreq	0.67	5.71	16.72	13.97	4.03	4.78	45.88	42.81%	28.67%
Israel	0.75	6.76	9.82	3.33	1.08	1.40	23.15	84.37%	15.63%
Region	3.45	19.52	34.46	22.77	6.59	5.87	92.66	49.14%	32.27%
MEMO ITEMS (shares)					in Percent				
Grants	47.49	27.04	30.20	78.81	79.57	84.45	49.54		
Concessional	28.83	22.88	15.85	16.39	13.68	21.61	18.22		
Non-Concessional	23.69	50.08	53.95	4.80	6.75	-6.06	32.24		

a. Net flows include grants and concessional and non-concessional loans

Source: World Debt Tables, Bank of Israel

Annex 2-Table 8: Net Flows [a] From Arab Donors ($ billion)

COUNTRY	1970-74	1975-79	1980-84	1985-89	1990	1991	Total 1970-91	Share of Grants	Share of Non-Conc.
Algeria	-0.03	0.07	-0.04	0.25	0.09	-0.02	0.32	41.90%	78.81%
Morocco	0.01	1.08	2.21	0.55	0.36	0.47	4.68	32.78%	2.83%
Tunisia	0.01	0.27	0.12	0.08	0.05	0.02	0.55	21.88%	5.64%
Maghreb	-0.02	1.42	2.29	0.88	0.51	0.47	5.55	32.21%	7.49%
Egypt	1.81	5.92	-0.23	0.03	2.19	0.50	10.22	75.08%	7.90%
Jordan	0.32	2.32	4.06	1.66	0.43	-0.01	8.77	95.16%	0.05%
Lebanon	0.10	0.26	0.67	0.05	0.14	0.06	1.28	100.00%	0.00%
Occupied Territories	..	..	0.46	0.28	0.02	..	0.76	100.00%	0.00%
Syria	0.88	4.13	5.14	1.71	0.58	0.09	12.53	96.27%	0.16%
Yemen	0.19	1.22	1.46	0.49	0.14	0.00	3.50	80.86%	0.38%
Mashreq	3.30	13.86	11.53	4.21	3.50	0.64	37.07	88.93%	2.28%
Region	3.28	15.28	13.82	5.09	4.01	1.12	42.62	81.54%	2.96%
MEMO ITEMS (Shares)		←		in Percent		→			
Grants	92.66	67.38	81.95	98.05	98.40	102.48	81.57		
Concessional	6.59	24.71	19.31	-0.27	-0.64	-2.18	15.48		
Non-Concessional	0.76	7.91	-1.26	2.22	2.24	-0.30	2.95		

a. Net flows include grants and concessional and non-concessional loans

Source: World Debt Tables

Annex 2-Table 9: Total Multilateral Assistance, Net Flows ($ billion)

COUNTRY	1970-74	1975-79	1980-84	1985-89	1990	1991	Total
Algeria	-0.01	0.26	0.25	0.83	0.35	0.57	2.25
Morocco	0.14	0.47	0.93	1.66	0.38	0.40	3.96
Tunisia	0.10	0.23	0.36	0.83	0.27	0.40	2.19
Maghreb	**0.23**	**0.95**	**1.54**	**3.32**	**1.00**	**1.36**	**8.40**
Egypt	0.01	2.36	1.30	1.12	-0.01	-0.16	4.62
Jordan	0.01	0.08	0.23	0.36	0.10	-0.02	0.77
Lebanon	-0.01	0.05	0.05	-0.03	-0.01	0.00	0.05
Syria	0.01	0.24	0.23	0.42	-0.01	-0.03	0.86
Yemen	0.01	0.17	0.41	0.32	0.01	0.03	0.97
Mashreq	**0.04**	**2.91**	**2.22**	**2.20**	**0.09**	**-0.17**	**7.27**
Israel	0.01	0.00	-0.02	-0.05	0.00	0.00	-0.07
Region	**0.27**	**3.86**	**3.73**	**5.47**	**1.08**	**1.19**	**15.61**
Memo Items (shares)							
o/w Arab [a]	0.04	0.56	0.20	0.28	0.06	-0.18	0.28
o/w WB	0.47	0.30	0.46	0.40	0.38	0.25	0.37
o/w IMF	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Concessional	0.46	0.58	0.39	0.22	0.15	0.09	0.34
Non-Concessional	0.54	0.42	0.61	0.78	0.85	0.91	0.66

a. Arab Multilaterals include the Arab Fund for Social and Economic Development, Islamic Development Bank, GODE (Gulf Organization of Egypt), OPEC Special Fund, Arab Monetary Fund and OAPEC Special Account; Israel not included.

Source: World Debt Tables

Annex 2-Table 10: Public Sector Borrowings from Commercial Sources, Net Flows ($ billion)

COUNTRY	1970-74	1975-79	1980-84	1985-89	1990	1991	Total
Algeria	1.92	7.80	-1.75	1.85	-1.24	-1.22	7.35
Morocco	-0.01	2.64	0.19	0.07	-0.01	-0.03	2.84
Tunisia	-0.05	0.58	0.08	-0.25	-0.11	-0.07	0.18
Maghreb	**1.86**	**11.02**	**-1.49**	**1.66**	**-1.36**	**-1.32**	**10.36**
Egypt	0.07	0.64	1.76	0.53	0.05	0.18	3.22
Jordan	0.02	0.25	0.16	0.88	0.00	-0.08	1.24
Lebanon	0.00	0.00	0.03	-0.02	0.00	0.00	0.00
Syria	0.09	0.09	0.19	0.24	-0.02	-0.05	0.55
Yemen	0.00	0.00	0.01	0.16	0.00	-0.01	0.15
Mashreq	**0.18**	**0.97**	**2.14**	**1.79**	**0.03**	**0.04**	**5.16**
Israel	1.86	1.26	-3.27	3.85	-0.08	0.19	3.81
Region	**3.90**	**12.25**	**-2.61**	**7.30**	**-1.41**	**-1.09**	**19.33**
Memo Items (shares)							
Bonds	0.42	0.10	1.01	0.77	-0.07	-1.33	0.47
Banks	0.38	0.59	-2.42	0.37	0.69	1.98	0.39
Suppliers' Credits	0.21	0.31	2.41	-0.14	0.39	0.34	0.15
Other Private	-0.01	0.00	0.01	0.00	0.00	0.02	0.00

Source: World Debt Tables

Annex 2-Table 11: Private Non-Guaranteed Debt ($ million)

COUNTRY	1970-74	1975-79	1980-84	1985-89	1990	1991	DOD $ million
Algeria	0	0	0	0	0	0	0
Morocco	28	60	99	31	0	0	200
Tunisia	0	70	24	4	(7)	(5)	213
Maghreb	28	130	123	35	(7)	(5)	413
Egypt	0	200	365	425	(81)	(50)	950
Jordan	0	0	0	0	0	0	0
Lebanon	0	0	0	0	0	0	0
Syria	0	0	0	0	0	0	0
Yemen	0	0	0	0	0	0	0
Mashreq	0	200	365	425	(81)	(50)	950
Israel	323	420	1,149	(252)	655	(1,660)	..
Region	351	750	1,637	208	567	(1,715)	..

DOD = Debt Outstanding and Disbursed

Source: World Debt Tables

Annex 2-Table 12: Total Interest Paid ($ million)

COUNTRY	1970-74	1975-79	1980-84	1985-89	1990	1991
Algeria	367	2,848	6,872	8,139	1,909	1,952
Morocco	180	1,047	3,025	3,648	871	1,088
Tunisia	120	419	1,124	1,653	391	384
Maghreb	**666**	**4,313**	**11,022**	**13,440**	**3,170**	**3,423**
Egypt	235	1,131	3,533	5,126	1,127	652
Jordan	15	119	557	1,283	300	304
Lebanon	11	11	121	170	32	41
Syria	39	195	355	474	122	131
Yemen	2	15	81	261	28	28
Mashreq	**301**	**1,471**	**4,647**	**7,315**	**1,609**	**1,156**
Israel	1,607	4,615	12,726	12,885	2,740	2,502
Region	**2,574**	**10,400**	**28,395**	**33,640**	**7,519**	**7,081**

Source: World Debt Tables, Bank of Israel

Annex 2-Table 13: Foreign Direct Investment *($ million)*

COUNTRY	1970-74	1975-79	1980-84	1985-89	1990	1991
Algeria	319	586	221	(20)	(39)	(91)
Morocco	34	181	321	382	217	375
Tunisia	158	386	1,164	473	185	164
Maghreb	**512**	**1,153**	**1,706**	**835**	**363**	**448**
Egypt	0	1,681	2,768	5,727	711	241
Jordan	(1)	103	339	107		
Syria	0	0	0	0		
Yemen	0	23	115	9	.	.
Mashreq [a]	**(1)**	**1,807**	**3,222**	**5,842**	**711**	**241**
Israel	440	205	(66)	602	(75)	(170)
Iran	1,066	141	0	0	0	0
Region	**2,017**	**3,306**	**4,862**	**7,280**	**1,000**	**519**
Region (w/o Iran)	951	3,165	4,862	7,280	1,000	519

a. Does not include Lebanon and Yemen
Source: IMF Balance of Payments

Annex 2-Table 14: Worker Remittances ($ million) [a]

COUNTRY	1970-74	1975-79	1980-84	1985-89	1990	1991
Algeria	1,526	1,773	1,446	3,838	1,528	1,213
Morocco	796	3,102	4,855	7,322	2,320	2,270
Tunisia	342	930	1,769	2,244	708	680
Maghreb	**2,664**	**5,805**	**8,070**	**13,404**	**4,556**	**4,163**
Egypt	545	6,035	14,945	16,385	4,284	4,054
Jordan	140	1,957	4,312	3,749	429	389
Occupied Territories	472	1,194	2,287	2,982	794	737
Syria	136	1,735	2,328	1,797	385	450
Yemen [b]	179	4,604	6,812	3,879	1,366	800
Mashreq [c]	**1,472**	**15,525**	**30,683**	**28,792**	**7,258**	**6,430**
Israel	4,647	5,489	6,022	6,912	1,963	2,167
Region	**8,783**	**26,819**	**44,776**	**49,107**	**13,777**	**12,760**

a. Includes current transfers for Algeria, Tunisia and Israel
b. 1985-1989 average refers to 1989 only
c. Does not include Lebanon

Source: IMF Balance of Payments

Annex 2-Table 15: Capital Flight ($ billion)

COUNTRY	1970-74	1975-79	1980-84	1985-89	1990	1991
Algeria	1,073	5,236	(1,001)	10,196	813	0
Morocco	536	1,016	781	5,202	(796)	(2,671)
Tunisia	159	621	(651)	1,613	40	971
Maghreb	**1,768**	**6,873**	**(871)**	**17,011**	**57**	**(1,700)**
Egypt	30	10,364	14,923	14,089	(2,011)	3,096
Jordan	62	157	1,405	2,565	191	(1,104)
Syria	250	1,734	4,599	6,934	488	N.A
Yemen	19	122	448	557	N.A	N.A
Mashreq	**282**	**12,255**	**20,926**	**23,588**	**(1,331)**	**1,992**
Israel	968	5,126	4,276	3,232	1,646	(39)
Region	**3,018**	**24,254**	**24,332**	**43,831**	**371**	**253**

Source: Authors' computation (see box 2)

Annex 2-Table 16: External Debt Outstanding, Ratios to GNP and Exports [a] *(percent)*

	1970		1975		1980		1985	
COUNTRY	EDT/GNP	EDT/XGS	EDT/GNP	EDT/XGS	EDT/GNP	EDT/XGS	EDT/GNP	EDT/XGS
Algeria	19.73	70.10	30.03	88.00	47.05	129.88	32.48	130.79
Morocco	19.28	98.19	19.42	67.50	53.28	224.55	136.56	400.47
Tunisia	40.22	153.63	24.40	69.89	41.57	95.97	61.60	163.74
Maghreb	22.36	91.05	25.89	79.50	48.04	142.31	51.92	187.98
Egypt	20.24	155.59	38.87	147.20	97.49	227.04	134.16	385.52
Jordan	9.35	96.76	21.22	59.90	59.24	78.99	84.77	134.34
Syria	11.32	72.67	10.02	50.12	27.15	106.23	66.36	374.35
Mashreq [b]	17.25	131.50	27.37	109.80	69.84	175.66	108.55	337.63
Israel	49.89	339.73	52.24	309.92	56.97	212.54	72.50	265.86
Region	18.58	93.99	17.36	49.7	34.52	131.29	35.32	202.28

a. Includes worker remittances
b. Does not include Lebanon and Yemen

EDT = External Debt
XGS = Exports of Goods and Services

Source: World Debt Tables

Annex 2-Table 17: External Debt Burden, 1991

COUNTRY	1991										
	PV	EDT	Shares			PV/ XGS	PV/ GNP[a]	INT/ XGS	TDS/ XGS	Avg Int	Avg Mat
	in $ millions		Bil.	Mult.	Com.	in Percent					(Yrs)
			in Percent								
Algeria	28,106	28,636	18.4	9.5	64.8	195.62	69.08	13.59	68.36	7.96	10.3
Morocco	19,515	21,219	49.4	23.9	21.6	234.94	73.54	13.04	27.56	7.56	19.0
Tunisia	7,475	8,296	38.1	32.7	15.4	123.62	59.62	6.15	22.72	6.13	19.8
Maghreb	55,096	58,151	32.5	18.0	42.0	191.84	69.08	11.86	46.95		
Egypt	21,435	40,571	68.6	8.2	12.0	147.92	68.80	4.00	16.67	5.60	27.8
Jordan	7,904	8,641	46.0	10.8	30.8	259.23	206.11	9.97	20.92	6.53	17.2
Lebanon	1,833	1,858	12.8	4.3	14.0	174.54	38.31	3.90	16.21	6.97	23.0
Syria	12,118	16,815	77.7	6.2	4.8	245.30	82.16	2.65	14.55	1.13	23.8
Yemen	5,400	6,471	61.5	16.4	2.4	244.12	73.56	1.27	7.28	2.34	23.5
Mashreq	0,765	76,181	66.0	8.7	11.8	171.64	75.70	4.83	17.97		
Israel	33,049	33,049	..	..	..	153.21	53.59	11.12	32.52		
Region	138,910	167,381	46.0	10.2	18.5	173.92	66.64	9.06	32.32		

a. This ratio is computed by using the official exchange rate. Using instead the parallel market rate, the ratios rise to 140 in Algeria, 287 in Syria, and 235 in Yemen.

PV = Present Value
EDT = External Debt
XGS = Exports of Goods & Services
INT = Interest Paid

Avg Int = Average Interest Rate (%)
Avg Mat = Average Maturity (Yrs)

Source: World Debt Tables.

Annex 2-Table 18a: Recent Paris Club Debt Reschedulings *($ million)*

PARIS CLUB	Date	Proportion of Debt (%)	Amount Consolidated ($)	Maturity Yrs	Maturity Mths	Grace Yrs	Grace Mths
Egypt							
	May 1987	100	5,563	.	3	4	9
	May 1991	100	28,164	——Menu——			
Jordan							
	July 1989	100	500	9	3	4	9
	Feb. 1992	100	603	19/14	5/3	9/7	11/9
Morocco							
	Oct. 1983	85	1,228	7	3	3	9
	Sep. 1985	90	1,083	8	3	3	9
	Mar. 1987	100	1,074	9	3	4	9
	Oct. 1988	100	1,100	9	3	4	9
	Sep. 1990	100	1,886	19/14	5/5	9/7	11/11
	Feb. 1992	100	1,303	19/14	5/7	9/8	11/11

Source: World Debt Tables

Annex 2-Table 18b: Recent London Club Reschedulings *($ million)*

LONDON CLUB	Date	Amount Rescheduled	Amount New Money	Amount ST Credit	Maturity Years	Maturity Mths.	Grace Years	Grace Mths	Interest Margin
Algeria									
	Feb. 1992	..	1,500	..	5-8	0	3	0	1-1/2/1-3/8
Jordan									
	Sep. 1989	580	..	..	11	0	5	0	13/16
	Nov. 1989	..	50	..	10	6	4	0	13/16
Morocco									
	Sep. 1983	531	..	610	7	0	3	0	1-1/4
	Sep. 1987	2,415	..	..	11	0	4	0	1-3/16
	Sep. 1990	3,200	..	..	15-20		7-10		

Source: World Debt Tables